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French fishermen abduct UK Royal Navy officers

Three Royal Navy officers were finally returned to their ship after French fishermen abducted them as they boarded a French trawler in British waters. The French vessel ignored orders to make for the UK's Channel Islands and headed for the French port of Cherbourg with the officers on board. In a separate incident, French fishermen in Cherbourg seized a Royal Navy patrol boat, HMS Blazer, during its white ensign flag.

Bosnian ceasefire holds: A ceasefire from noon yesterday, agreed by Bosnia's three warring parties, appeared to be holding, as a long-delayed United Nations relief convoy reached the besieged eastern town of Srebrenica, where 60,000 people are desperate for aid. Page 14

IBM rivals throw doubts on Gerstner: IBM's competitors moved swiftly over the weekend to capitalise on uncertainty created inside and outside the world's largest computer maker by the appointment as chief executive of Mr Louis Gerstner, who has no computer industry experience. Page 15

News Corporation seeks \$3bn loan: Rupert Murdoch's News Corporation is seeking a \$3bn revolving loan from a group of international banks, to help refinance outstanding debts at lower interest rates. Separately, Mr Murdoch is expected today formally to propose in a New York bankruptcy court to take control of tabloid newspaper The New York Post. Page 15

European Monetary System: The French franc remains at the bottom of the exchange rate mechanism's grid but its divergence from its central rate is -64 percentage points compared to around -70 last Monday. The Belgian franc is now neck-and-neck with the D-Mark in the grid. In the middle of last week, the Belgian currency had fallen below the D-Mark, following the resignation of the Belgian government.

EMS: Grid March 28, 1993

Country	Rate
Belgium	166.35
France	166.35
Germany	166.35
Italy	166.35
Netherlands	166.35
Spain	166.35
UK	166.35

The chart shows the member currencies of the exchange rate mechanism, measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and the Portuguese escudo operate with 6 per cent fluctuation bands.

US defence moves delayed: The Clinton administration has postponed all big decisions on military force structure and defence equipment programmes until it has finished a "bottom-up" review of defence needs and programmes. Page 6

Threat to new UK rail terminal: A £130m (\$181m) international rail terminal being built at London's Waterloo station, the UK's biggest station project since the last century, could become obsolete six years after opening if the Channel tunnel rail link is built as planned. Page 14

Irish rally calls for peace: About 15,000 Irish demonstrators, led by a Dublin woman, held an emotional rally in protest at the IRA killing of two children in a bomb blast in England. A small Republican counter-demonstration before the protest rally was booed off.

Trade talks seek to avert US sanctions: Senior US and European Community trade officials held critical talks in Brussels today aimed at averting US sanctions over EC government purchasing policies, and at restoring momentum to stalled talks on global trade liberalisation. Page 14; Growth in world trade speeds up after three years, Page 6; Trade appetite with his eye in the ball, Page 15

Nigerian elections candidates emerge: Two millionaire businessmen close to military leader Ibrahim Babangida looked set to emerge as presidential candidates in Nigerian elections in June.

Glaxo: Europe's biggest drugs company, has agreed to demands by the US Food and Drug Administration that it withdraws some promotional claims about its ulcer treatment drug Zantac. Page 15

S. Korea train crash kills 87: At least 67 passengers were killed and more than 120 injured when an express train left the rails and turned over in South Korea.

PLO delays decision: The Palestinians are to defer a decision on whether to attend the next round of Middle East peace talks. PLO chairman Yasser Arafat said the issue would be decided on April 8. Page 3

European software body planned: A group of leading computer companies and their customers are seeking to improve Europe's competitiveness through a new research institute in Bilbao. Page 2

Diamond exchange: The first diamond exchange in Eastern Europe opened in Prague, with organisers saying they hoped it would bring trade with diamonds in the Czech Republic under control.

President strengthens his position after deputies reject compromise

Ballot to impeach Yeltsin fails in Congress

By John Lloyd and Leyla Bouton in Moscow

MR Boris Yeltsin, the Russian president, yesterday survived a vote on his impeachment by the Congress of Peoples' Deputies. His rival, Mr Khasbulatov, the parliamentary speaker, survived a simultaneous vote of no confidence.

In a secret ballot, deputies cast 617 votes in favour of impeaching Mr Yeltsin, well short of the 669 required to remove him from office.

It said about 400 members voted to oust Mr Khasbulatov, below the 517 needed for his dismissal.

The attempt to remove both men was a furious reaction by the Russian parliament to an overnight compromise agreement by the two arch-rivals which would have called early elections and abolished the legislature.

The vote against Mr Yeltsin's impeachment appears to mean that he retains the special powers he declared for himself last week. Under these powers, his decrees and instructions can be challenged only by the Constitutional Court and not by parliament.

Mr Yeltsin drew strength yesterday from a rally of about 60,000 supporters, which gathered behind St Basil's Cathedral, just outside the walls of the Kremlin. He addressed them soon after a compromise offer had failed. He said he would "not submit to any decision of the Congress to impeach me."

The rally, led by Mr Yegor Gaidar, the former prime minister, Mr Gennady Burbulis, the former presidential aide and others, heard Mr Gaidar, leader of the Movement for Democratic Reform, say that "we're living badly because we're conducting the reforms badly. They're trying to turn out the president because he wants to deepen the reforms."

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Yeltsin rides the peaks and troughs of Congress
G7's reluctant convert to Russia's cause

but the people won't let them."

A rival gathering of some 10,000 nationalists and communists rallied on the Manezh Square to hear a succession of calls for the impeachment of the president. In contrast to the pro-Yeltsin rally, this was heavily policed, with mounted militia, armoured cars and water cannons ringing the relatively small group.

It is the first Congress for over a year from which Mr Yeltsin has emerged strengthened, with no muddled compromise constraining his actions. However, on Saturday he had used his promised plebiscite on trust in the president on April 25, which he had represented as a critical opportunity to listen to the voices of the people, as a bargaining chip: he offered to cancel the plebiscite in exchange for an election in November for the president and a new two-tier parliament.

However, deputies rejected this compromise, agreed between Mr Yeltsin, Mr Khasbulatov and Mr Victor Chernomyrdin, the prime minister - and then proceeded to vote themselves the right to ballot on the future of both Mr Yeltsin and Mr Khasbulatov.

The speaker, who had made several dramatic turnabouts over the past few days, finally refused the ire of the deputies who - according to one - had "grown plain sick of him."

Several dangerous elements remain:

● The president and the parliament are now more bitterly opposed than ever. Deprived of the opportunity to impeach him by parliamentary means, hard-

line opponents will be tempted increasingly to turn to extra-parliamentary protest.

● The Congress passed a resolution taking control of TV and radio into its hands, by demanding the right to appoint supervising committees over all the stations with the right of appointment of the chairmen and of interference in programmes.

● Mr Yeltsin's main argument for his actions, underscored on Saturday by Mr Chernomyrdin, is the "catastrophic" state of the economy and the need for rapid action. However, these actions - such as stemming the flow of credits and increasing unemployment - will weaken his still impressive popularity and give extra support to his opponents.

● The president will be tempted, in the period to the April 25 plebiscite, to pass measures which will increase support in him by paying out extra benefits.

● Weak Martin, US Editor, adds from Washington: Mr Warren Christopher, the US secretary of state, yesterday said the US would be "very steady" in its support of reform in Russia, of which "by far the best exponent is Boris Yeltsin."

Interviewed on TV as the Russian parliament voted on the impeachment motion, he said Mr Yeltsin was right to have called a plebiscite.

Yeltsin supporters say no compromise

THEY ALL showed up yesterday: the destitute pensioners, the flashy entrepreneurs, the impoverished intellectuals and professionals and the manual workers, writes Leyla Bouton in Moscow.

Just as he was offering to give up the referendum he had called for April 25, President Boris Yeltsin's supporters turned out in their biggest numbers since the August 1991 coup to urge him to stop compromising with his conservative opponents.

"Enough! Compromises with Communists! Criminals," said a banner attacking the parliament. There were also attacks on its speaker, Mr Khasbulatov, who was likened to Stalin and urged to return to Chechnya, the rebellious southern region which has declared independence from Russia and recalled him as its deputy.

By the time tens of thousands marched from the town centre to the gates of the Kremlin, the congress vote to reject any compromise with the Russian leader gave him no choice but to swear to the rally "that

the time of compromises is over" after he was publicly challenged by Ms Elena Bonner, the 70-year-old widow of human rights leader Andrei Sakharov.

Mr Yegor Gaidar, the former prime minister who launched the market reforms, now under attack from conservatives for impoverishing the people, drew some of the loudest applause.

"We may eat only bread, but we must be free of these Communists who choked Russia for 70 years," said Klava, a retired metalworker and one of the millions of pensioners whose living standards have been ravaged by the reforms. "We won't die, we will survive."

With pop music, snack stalls, and portable lavatories provided by the Moscow mayor's office, the lightly policed event was in stark contrast to another demonstration in Red Square. There, some 300 baton-wielding police hemmed in a demonstration of a few thousand Communists and extreme nationalists who have found common ground.

Fresh probe into Mafia links of Italian politicians

By Robert Graham in Rome

FIVE political bosses in Naples were warned yesterday that they were under investigation for alleged association with the city's organised crime families, the Camorra.

This follows the move by Palermo magistrates over the weekend advising Mr Giulio Andreotti, the veteran Christian Democrat politician who has served seven times as prime minister, that he is under investigation for allegedly conspiring with the Sicilian Mafia.

These latest moves confirmed the shaky links between the Mafia and the political establishment have become a central issue in Italy's corruption scandals. Mr Andreotti, 74, and now a life senator, is the most senior political figure to have received such a warning. He released the news and proceeded to defend himself vigorously.

Parliament has been sent a dossier concerning Mr Andreotti running to over 800 pages, and this will form the basis of whether his parliamentary immunity will be waived.

As Italy's post-war political establishment has been progressively incapacitated by more than a year's investigations into corruption in the north of the country, the politicians' long suspected links with organised

crime in the south have scarcely been touched.

Naples magistrates have begun to act after years of inactivity or investigations which were deliberately buried. Within the past 48 hours, 18 members of parliament and Euro-MPs have been warned they are under investigation for alleged corruption and half the city council has been arrested.

All the Naples political bosses have been caught in the net, and the magistrates are now following even more potentially explosive leads of their alleged links with the local Mafia.

These served notice yesterday are already involved in investigations for corruption. The most notable are two former Christian Democrat ministers - Mr Antonio Gava and Mr Paolo Cirino Pomicino. Last night, Mr Gava, a former interior minister, resigned as leader of the Christian Democrat group in the senate and his seat on the parliament's constitutional reform body. Mr Pomicino, a former finance minister, denied any involvement with the Mafia.

According to leaks from Palermo magistrates, they wish to question Mr Andreotti over his connections with Mr Salvatore Lima, the Christian Democrat Euro-MP who was assassinated by the Mafia last March. Mr Lima, the most powerful politi-

cian in Sicily, was a close friend of Mr Andreotti and was widely considered to have acted as an intermediary with Rome.

Investigations into Mr Lima's death and the subsequent assassination of the two leading anti-Mafia magistrates, Mr Giovanni Falcone and Mr Paolo Borsellino, behind the magistrates' move on Mr Andreotti. His alleged mediation with the Mafia has been inferred to by at least three and perhaps six former members of Sicilian clans who are now co-operating under plea bargaining programmes.

Mr Andreotti claimed that these confessions were nothing more than a vendetta for having initiated under his premiership a drive against organised crime.

Mr Andreotti has been in government since 1946 and has held every office of state except the presidency. He has been named in 26 different parliamentary inquiries over the years. But he has proved a remarkable survivor and he has maintained his reputation until the Lima affair despite a friendship with Mr Michele Sindona, the disgraced banker, and Mr Licio Gelli, the grand master of the secret masonic lodge, P2.

In recent weeks Mr Andreotti has seen all his key supporters become caught up in corruption.

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French right wins election landslide

By David Buchan in Paris

THE sweeping victory of France's conservative parties was last night confirmed in exit polls, which predicted they had won all but around 100 out of the 577 National Assembly seats in yesterday's run-off election.

Within the victorious coalition, the Gaullist RPR party won more seats than its UDF partner, making it highly likely that President Francois Mitterrand will choose the new prime minister from within the RPR's ranks.

Mr Jacques Chirac, the RPR leader, whose main ambition is to succeed Mr Mitterrand in the presidency in 1995, indicated that he did not expect to be the new premier.

The new government would have "all my support", he said. Mr Chirac's preferred candidate for the premiership is Mr Edouard Balladur, the RPR finance minister in the conservatives' first cohabitation government under President Mitterrand.

Early exit polls gave the Socialists 68 or slightly more seats, compared to the 277 which they and their minor allies had held in the last parliament. The Socialist rout was dramatically underscored by the defeat of Mr Michel Rocard, who had hoped to be the Socialist standard-bearer in the 1995 presidential contest.

Another Socialist heavyweight to fall last night was Mr Roland Dumas, foreign minister, who failed to keep his Dorlogne seat.

The turn-out appeared to be no higher than the 68.9 per cent in last week's first round of voting. The outgoing Socialist government thus failed in its call on left-wing voters and abstentionists to rally behind it to limit the size of the centre-right landslide.

Under the French parliamentary system, in which 58 votes are needed to launch censure motions against the government, the Socialist may barely survive as an effective opposition. But they will get support from the Communists who appeared to have kept 30 of their seats.

Tha extreme right-wing National Front seemed to have won only a couple of seats, and its leader, Mr Jean-Marie Le Pen, lost his bid for a seat.

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GROWTH MARKET

Between 1982 and 1992, the dollar volume of stocks traded on The Nasdaq Stock Market has increased by 958% - almost triple the figure achieved by the other major US stock exchange.

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NEWS: INTERNATIONAL

FRENCH ELECTIONS

Chirac's party in strong position to dictate terms

By Alice Rawsthorn in Paris

MR Jacques Chirac's Gaullist RPR party was last night on course to become the highest single force in the new French parliament, according to early exit polls by the Sofres market research consultancy.

The Sofres polls, which were conducted before the end of the second round of voting in Paris but which are generally regarded as reliable indicators, suggested that the RPR would emerge with 283 of the 577 seats in the National Assembly, comfortably ahead of the UDF, its main partner in the conservative coalition, with 214 seats.

This leaves the RPR in an extremely strong bargaining position when it comes to the choice of prime minister, who is selected by the French president but who traditionally comes from the largest party in the National Assembly, and also in the allocation of ministerial posts.

Mr Chirac, who was prime minister in the last *cohabitation* government from 1986 to 1988, has made it clear that he does not want the job again, saying that the thought "sends shivers down my spine".

The RPR leader, who is now favourite to win the 1995 presidential elections, does not want to risk a repetition of the embarrassing, humiliating clashes with Socialist President François Mitterrand, which he believes cost him the 1988 presidential campaign.

However Mr Chirac is keen for an RPR candidate to be chosen as prime minister, preferably Mr Edouard Balladur, a mild-mannered man who served as finance minister in the last conservative government.

Last week Mr Mitterrand threatened to choose a premier from outside the RPR if Mr Chirac persisted in his calls for the president's resignation.

Mr Mitterrand is in principle still free to look outside the RPR for his prime minister, but the scale of the Gaullists' lead over the UDF makes it considerably less likely that he will do so.

The RPR's ascendancy should also help Mr Chirac in his bargaining with the UDF over cabinet posts, thereby having important implications for the future of French policy.

There are significant splits between the two conservative parties on important areas of policy, notably in foreign affairs, where the Gaullists are far less enthusiastic than the UDF about continuing France's close monetary links with Germany and much more aggressive about sabotaging last summer's European community agricultural reforms.

However the RPR's room for manoeuvre will be restricted by the influence of President Mitterrand who has the right to veto cabinet appointments and who will be particularly anxious to establish his own authority, as head of state, over foreign affairs.

But there is little that the president, or even Mr Chirac, can do to muffle the rogue voices in the Gaullist camp, notably those of Mr Charles Pasqua and Mr Philippe Séguin, who led the anti-Maastricht campaign in last autumn's referendum and have since argued forcefully for the devaluation of the franc.

Their party's success may make the RPR more confident about raising their voices in future.

Franc's defence dictates need for new relationship with Germany



ASSEMBLÉE NATIONALE

Elections '93

THE key element in the new French conservative government's foreign, as well as domestic, policy will be maintaining the franc's parity with the D-Mark, as the only achievement which still holds the door open to the eventual European monetary and political union.

But that does not mean France's external policy will be unchanged.

Indeed, it is precisely to maintain the departing Socialist government's strong currency stance - at a time of wide recession in Europe and record real interest rates at home - that France's new centre-right government want a new relationship with Germany.

All that is mentioned in the joint RPR and UDF manifesto is the need for a "new initiative" with Germany in the monetary field. But this is just one - though the most important - element of a package deal, including a more aggressive European commercial stance and recognition of Germany's greater geo-political status, which the new government seems to want to present to Germany.

If the government can get Germany to agree, it believes that President François Mitterrand will have no cause to try to exercise his prerogative in foreign policy. If the Germans balk, and if an EC crisis erupts, then France's new government may well face trouble from its president and from abroad.

The new initiative towards Germany, says an adviser to Mr Edouard Balladur, the preferred RPR candidate for prime minister, "will not be the caricature" often presented by conservative politicians or by the French employers' federation; France's new prime minister will not dash across the Rhine to deliver an ultimatum that Bonn and Frankfurt must somehow find a way to reduce German interest rates by a set percentage by a set date.

Rather, this adviser says, the new government will take "France's first opportunity since the fall of the Berlin Wall to discuss a new relationship with Germany calmly" in an atmosphere unencumbered by the long Maastricht treaty negotiations. This would involve getting the Germans to acknowledge that with their goal of integrating the eastern Länder into the federal republic taking priority over all else, they no longer provide the model of "balanced growth" for Europe to aim at; that France is now a better approximation of this model; and that, at the very least, Germany must share its anchor position in the European monetary system with France.

What does this "sharing" mean? The nario changes to one in which Germany would join France and some other countries in announcing a new monetary union plan.

So, within its first two months, the new government would like some public show of monetary co-operation from Germany. Narrowing the franc/D-Mark fluctuation bands in the EMS is mentioned in Paris, but the Bundesbank might object that such a move would make its intervention in support of the franc more predictable, and therefore harder to wrong-foot speculators.

But it seems likely that Paris will expect some early gesture from Germany to reciprocate its promise to create an identikit Bundesbank by giving the Banque de France autonomy in monetary policy-setting.

The new government's persuasive powers may be taxed even harder on trade. But France's conservatives have campaigned themselves to victory on complaints that the European Commission, passively aided and abetted by the outgoing French Socialist government, has been dangerously derelict in its duty to protect not only agriculture but also industry from unfair international competition.

Europe is being asked to open up too fast on too many fronts, goes the conservatives' argument in Paris. If Germany wants freer trade with eastern Europe, then it must join France in ensuring the EC takes a tougher line in GATT negotiations.

In return for changing tack on monetary and commercial policy, the new French government will support Germany's case for a permanent seat on the UN Security Council. Mr Alain Juppé, the RPR sec-

retary-general who wants to be the new foreign minister, has been quite explicit about playing this political card.

Will Germany buy such a deal? Mr Klaus Kinkel, German foreign minister, has suggested in French minds that it would. The minister has been as keen in public to welcome an eventual Security Council seat for his country as he has been overtly impatient about French obstructionism in GATT. But another senior German minister has retorted recently that there could be "no deal" on this basis, and that most Germans are not interested in Security Council prestige to compromise on their basic economic interests.

France's Gaullist politicians may therefore be deluding themselves into reading into German minds their own reactions to Security Council status.

If the new government can plausibly show some success in its "new initiative" towards Germany, then it may find it easier to soft-pedal on agricultural policy. France will continue to oppose the draft EC-US deal on farm trade; the incoming conservatives are just angry that the outgoing Socialists have left it to them to possibly wield France's veto. But Mr Jean-Pierre Soisson, the departing farm minister, has shown them it is possible to use guerrilla tactics in Brussels to adapt last year's reform of EC farm policy more to French interests, instead of trying to rip the reform up.

In defence policy, the new government will probably continue to edge France nearer to operational co-operation with Nato. Mr Jacques Chirac, the RPR leader, is clearly persuaded that with a less US-dominated alliance, there can be a place for France.

But the Socialists have left one political trap for the new government, by suspending nuclear weapons tests. Resuming such tests - if the US and Russia continue their own test bans - could prove explosive, in more than one sense.

David Buchan examines plans to maintain a strong currency stance

answers here are a bit vague. It does not seem to mean the German government making any precise promise on interest rate cuts, which only the Bundesbank can deliver on. RPR advisers believe France has a margin of manoeuvre to lower its interest rates in the coming months, because its short-term rates are a couple of points above German ones, because French inflation is half the German rate of price increases, and because German short-term rates will probably come down another 1-2 percentage points in the next six months.

What the new government absolutely does not want to do is to have to respond to some short-term speculative crisis by raising French rates. RPR advisers see the run-up to Denmark's second Maastricht referendum on May 18 as one such danger point, even if as expected, the Danes ratify the treaty. If Denmark votes the treaty down, making subsequent UN ratification improbable or irrelevant, then the sec-

France autonomy in monetary policy-setting

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David Gardner looks at how posts in Brussels are filled

These rules are "mutually contradictory," says a senior official who deals with personnel policy. "We do our best to navigate between them," welcoming the Court's decision as "a useful judgment" to help the Commission do so.

But another official who has served in several top political jobs in the Commission is more caustic. "We appoint the wrong people, to the wrong jobs, for the wrong reasons."

Political appointments are accepted and above board in the cabinets of the Commissioners, and at the two highest levels of the A-grade policy-making staff of the Commission. It is also acknowledged practice, though not licit under the rules, that control of the 23 Brussels directorates-general is partly shared out on an informal "national flag" basis.

France has had a lockhold on the agriculture directorate since the Common Agricultural Policy was set up 30 years ago; financial services and transport have been British stamping grounds; and Germany has had a long succession of director generals for competition policy.

In sportspersoning the rest of the DGs, a lot of log-rolling goes on to give member states roughly the right number and influence, in proportion to their size. Thus it was known in February 1991 that a Spaniard would take over the social policy directorate in October 1992 because Spain was one down on its quota, having made way for the UK at the transport DG, Belgium, by contrast, was temporarily one up on its quota; the key to the

reshuffle was that there was a Belgian director general at social affairs who was due to retire.

But this sort of musical chairs has spread further down Commission ranks, spreading demoralisation along the way. One reason, made plain in a Commission working document on recruitment of last November, is that "geographical imbalances among applicants are persisting or getting worse."

The Commission chooses from a far smaller pool than national bureaucracies, and in the past five years there has been a sharp rise in applicants from Belgium and Italy and a steep fall in British and German candidates.

Among the large member states, the UK has always been under-represented; whereas France, Italy and Germany all have more than 600 A-grade functionaries, Britain has fewer than 500.

As a latecomer this is partly understandable, and it is also to be expected that a certain amount of manoeuvring goes on to try to redress this and other imbalances - particularly given what one official calls the "clientelist" practices of some member states as Greece and Italy.

The underlying problem is a hopeless imbalance in supply. Of the 93,891 applicants for the 3,459 A-grade posts advertised by competition in 1988-91, the Commission report shows, the UK fielded only 4,968, Denmark only 1,574, against 24,734 from host

country Belgium, 18,539 from Italy and 10,333 from France.

The semi-detached Danes and British, though least interested in applying, have the best pass rates (5.8 and 3.7 per cent respectively, against, say, 2.8 and 1.6 per cent of successful applicants from Belgium and Italy). Nevertheless, by sheer weight of numbers, Belgium and Italy get between three and six times more people into the top of the Commission than Britain and Denmark.

Part of the reason is that Brussels goes after too many specialists, who face exams that a French-style elite school provides better preparation for than more generalist training common in such countries as the UK.

Officials say a more rounded approach is now being discussed: to recruit more generalists; give them a broader grounding by passing them through several departments before allocating fixed jobs; and relying more on temporary secondment from national administrations.

This last is partly to circumvent tight restrictions on hiring. The Commission is kept small, in relative terms, numbering 14,533 officials at the end of last year, or about the size of the UK agriculture ministry. The EC countries average 322 civil servants per 10,000 inhabitants, against only 0.8 per 10,000 for all EC institutions together.

Widening the recruitment pool, plus the precedent set by the Court, should help the Commission to resist nationalist lobbying, but officials warn that pressures for a carve-up will remain. "Yes, it will help to resist these pressures," says one senior official. "But to go from there to saying we're going to be recruiting entirely on merit is unrealistic."

Mitterrand keen to make mark on the new team

By Alice Rawsthorn

ONCE the final tally of votes in yesterday's parliamentary election is proclaimed this morning, France will move on to the other issues which will determine its political fortunes for the next two years - the choice of the prime minister and the cabinet.

The conservatives' victory has been regarded as a foregone conclusion for so long that President François Mitterrand has had plenty of time to mull over the various contenders for the premiership. In theory he has a free choice, but in practice he must choose a candidate who can command a majority in parliament.

The first step towards announcement of the new French premier will be the resignation of Mr Pierre Bérégovoy, the present incumbent. He is expected this morning to go to the Elysée Palace to tender his resignation personally to the president.

Mr Mitterrand has traditionally tended to disclose the name of the new prime minister later on the same day; he did so in 1986 at the start of the last *cohabitation* government, when he announced in the evening his choice of Mr Jacques Chirac, head of the Gaullist RPR party.

The president has an empty agenda today. But he may wish to delay announcing any decision either because he is genu-

inely undecided or because, characteristically, he wants to keep the conservatives on tenterhooks. The only constraint is that he must appoint a premier in time for the first session of the National Assembly on Friday, which means he has to make his choice by Wednesday evening at the latest.

The next step will be the selection of the new cabinet, which must also be approved by Mr Mitterrand. The president objected in 1986 to Mr Chirac's suggested candidates for foreign affairs and defence.

The president is almost certain to object to at least one of the new prime minister's suggestions this time, if only because he will consider it critical that he exert his influence as quickly as possible over the new *cohabitation* government.

He will also be anxious to use his power over the choice of cabinet members to exploit any potential rifts between the conservative parties.

The next important date is Friday, when the new National Assembly will meet for the first time and appoint its next president to replace the Socialist Mr Henri Emmanuelli. The constitution stipulates that new parliaments must begin either on October 2 or April 2, to avoid the ignominy of a new French government starting on April Fool's Day, or *jour de poisson* as it is called in France.

Foreign minister is early casualty

By Alice Rawsthorn

ONE of the earliest casualties of the Socialists' defeat last night was Mr Roland Dumas, the veteran foreign minister, who lost his seat at Sarlat in the Dordogne to Mr Jean-Jacques de Peretti, the local Gaullist mayor.

The loss of his constituency brings Mr Dumas, 70, to the end of a long political career in which he has been as influential in his personal role as a confidant of President François Mitterrand as in his professional ministerial posts.

Mr Dumas spent his early career in journalism but went into politics in the late 1950s. He served as minister of European affairs during the first Mitterrand government from 1981 to 1983, moving on to external relations until 1986 and becoming foreign minister when the Socialists returned to power in 1988.

The Foreign Ministry has traditionally been something of a poisoned chalice in French politics, given that the president is generally active in foreign affairs. Mr Mitterrand has been no exception. But Mr

Dumas managed to carve out a role for himself, thanks partly to his close relationship with the president but also to his own expertise, particularly in oriental studies.

Mr Dumas has long been seen in France as a *bon viveur*. The press frequently refers to him (generally approvingly) as a *grand bourgeois*.

But the raffish side of his nature became a distinct disadvantage in the parliamentary campaign.

His bid for re-election has been dogged by a blaze of publicity over his friendship with Ms Nahed Ojeh, daughter of Mr Mustapha Tlass, the Syrian defence minister, and by the revelation that her family paid for a new film scanner at a Sarlat hospital.

Mr Dumas does at least have the consolation that his links with Mr Mitterrand seem to be intact. When the president last week came under pressure from the Gaullists to resign, he turned to two trusted Socialists to communicate his views. One was Mr Pierre Bérégovoy, the prime minister, the other was his old ebullient, Mr Roland Dumas.

Jockeying for power in a conservative government

RPR: Rassemblement pour la République. The Gaullist party; more nationalist than the UDF partner (see below). Both RPR and UDF campaigned in support of presidential, budget, and social reforms for the Banque de France. Large majority of RPR leaders favour keeping the franc strong. The RPR, for which most farmers vote, is very hostile to EC and GATT agricultural reforms.

UDF: Union pour la Démocratie Française. Federation of five centre-right parties. Fought on common platform with RPR. However, UDF more free-market and pro-EC and more favourable to decentralisation than RPR.

CDS: Centre des Démocrates Socialistes. Small party affiliated to UDF. French version of Christian Democrats.

Jacques Chirac. Aged 58. Leader of the RPR. Prime minister twice, once (1974-77) under Claude Châtelet and once (1986-88) under Mitterrand, and does not want the job again. Is currently running for the presidency to succeed Mitterrand in 1995, and wants to place government in hands of his trusted lieutenant, Edouard Balladur.

Charles Pasqua. Aged 55. RPR leader in the Senate. This former defence minister, who was a member of the far-right Front National in 1985-86, and would like to be defence minister. Advocates creation of a reserve national guard if France moves away from NATO to a more professional army.

Valléry Giscard d'Estaing. Aged 67. Leader of the UDF. An ex-conservative (1974-81) who did not personally leave after the prime minister's resignation. But will bargain hard for maximum UDF influence in new government. Is more pragmatic than Chirac about running for the presidency but will do so if he thinks he has a chance. Has a respected dislike of Chirac.

Edouard Balladur. Aged 48. An economics professor turned UDF politician. Keen supporter of European monetary union and a strong franc as the best way to get there. Turned down Mitterrand's offer in December of one of France's two European commissionerships, partly to be available for the Finance Ministry. But may have too many of his own ideas about France to suit Balladur.

Pierre Méhaignerie. Aged 58. Former minister of agriculture (1987-91) and would like to be finance minister. Fact that he is less well qualified than Balladur would not be a handicap to Balladur, who wants to start chieving influence on finance. Big role for CDS would help neutralise opposition to Balladur's Socialist credentials - see Michel Rocard or Jacques Delors - in the 1995 presidential race.

Alain Juppé. Aged 47. RPR secretary-general. Very close to Chirac and one of his deputies as mayor of Paris. Would now like to get out from Chirac's shadow. Has been budget minister (1988-89) and could do another economics job. But faces a higher profile this time as foreign minister at the Quai d'Orsay.

Alain Madelin. Aged 47. Senior UDF leader who, negotiated, on the party's behalf, common programme with the RPR. But failed to persuade his party or the RPR leadership that the franc should be floated as the only way to control influence on France of Germany's high interest rates. A genuine free-market liberal (a rarity in French politics). Was industry minister (1986-88) but now seems resigned to a second-ranking ministry, perhaps labour or transport.



ASSEMBLÉE NATIONALE

Elections '93

THE key element in the new French conservative government's foreign, as well as domestic, policy will be maintaining the franc's parity with the D-Mark, as the only achievement which still holds the door open to the eventual European monetary and political union.

But that does not mean France's external policy will be unchanged.

Indeed, it is precisely to maintain the departing Socialist government's strong currency stance - at a time of wide recession in Europe and record real interest rates at home - that France's new centre-right government want a new relationship with Germany.

All that is mentioned in the joint RPR and UDF manifesto is the need for a "new initiative" with Germany in the monetary field. But this is just one - though the most important - element of a package deal, including a more aggressive European commercial stance and recognition of Germany's greater geo-political status, which the new government seems to want to present to Germany.

If the government can get Germany to agree, it believes that President François Mitterrand will have no cause to try to exercise his prerogative in foreign policy. If the Germans balk, and if an EC crisis erupts, then France's new government may well face trouble from its president and from abroad.

The new initiative towards Germany, says an adviser to Mr Edouard Balladur, the preferred RPR candidate for prime minister, "will not be the caricature" often presented by conservative politicians or by the French employers' federation; France's new prime minister will not dash across the Rhine to deliver an ultimatum that Bonn and Frankfurt must somehow find a way to reduce German interest rates by a set percentage by a set date.

Rather, this adviser says, the new government will take "France's first opportunity since the fall of the Berlin Wall to discuss a new relationship with Germany calmly" in an atmosphere unencumbered by the long Maastricht treaty negotiations. This would involve getting the Germans to acknowledge that with their goal of integrating the eastern Länder into the federal republic taking priority over all else, they no longer provide the model of "balanced growth" for Europe to aim at; that France is now a better approximation of this model; and that, at the very least, Germany must share its anchor position in the European monetary system with France.

What does this "sharing" mean? The nario changes to one in which Germany would join France and some other countries in announcing a new monetary union plan.

So, within its first two months, the new government would like some public show of monetary co-operation from Germany. Narrowing the franc/D-Mark fluctuation bands in the EMS is mentioned in Paris, but the Bundesbank might object that such a move would make its intervention in support of the franc more predictable, and therefore harder to wrong-foot speculators.

But it seems likely that Paris will expect some early gesture from Germany to reciprocate its promise to create an identikit Bundesbank by giving the Banque de France autonomy in monetary policy-setting.

The new government's persuasive powers may be taxed even harder on trade. But France's conservatives have campaigned themselves to victory on complaints that the European Commission, passively aided and abetted by the outgoing French Socialist government, has been dangerously derelict in its duty to protect not only agriculture but also industry from unfair international competition.

Europe is being asked to open up too fast on too many fronts, goes the conservatives' argument in Paris. If Germany wants freer trade with eastern Europe, then it must join France in ensuring the EC takes a tougher line in GATT negotiations.

In return for changing tack on monetary and commercial policy, the new French government will support Germany's case for a permanent seat on the UN Security Council. Mr Alain Juppé, the RPR sec-

retary-general who wants to be the new foreign minister, has been quite explicit about playing this political card.

Will Germany buy such a deal? Mr Klaus Kinkel, German foreign minister, has suggested in French minds that it would. The minister has been as keen in public to welcome an eventual Security Council seat for his country as he has been overtly impatient about French obstructionism in GATT. But another senior German minister has retorted recently that there could be "no deal" on this basis, and that most Germans are not interested in Security Council prestige to compromise on their basic economic interests.

France's Gaullist politicians may therefore be deluding themselves into reading into German minds their own reactions to Security Council status.

If the new government can plausibly show some success in its "new initiative" towards Germany, then it may find it easier to soft-pedal on agricultural policy. France will continue to oppose the draft EC-US deal on farm trade; the incoming conservatives are just angry that the outgoing Socialists have left it to them to possibly wield France's veto. But Mr Jean-Pierre Soisson, the departing farm minister, has shown them it is possible to use guerrilla tactics in Brussels to adapt last year's reform of EC farm policy more to French interests, instead of trying to rip the reform up.

In defence policy, the new government will probably continue to edge France nearer to operational co-operation with Nato. Mr Jacques Chirac, the RPR leader, is clearly persuaded that with a less US-dominated alliance, there can be a place for France.

But the Socialists have left one political trap for the new government, by suspending nuclear weapons tests. Resuming such tests - if the US and Russia continue their own test bans - could prove explosive, in more than one sense.

David Gardner looks at how posts in Brussels are filled

These rules are "mutually contradictory," says a senior official who deals with personnel policy. "We do our best to navigate between them," welcoming the Court's decision as "a useful judgment" to help the Commission do so.

But another official who has served in several top political jobs in the Commission is more caustic. "We appoint the wrong people, to the wrong jobs, for the wrong reasons."

Political appointments are accepted and above board in the cabinets of the Commissioners, and at the two highest levels of the A-grade policy-making staff of the Commission. It is also acknowledged practice, though not licit under the rules, that control of the 23 Brussels directorates-general is partly shared out on an informal "national flag" basis.

France has had a lockhold on the agriculture directorate since the Common Agricultural Policy was set up 30 years ago; financial services and transport have been British stamping grounds; and Germany has had a long succession of director generals for competition policy.

In sportspersoning the rest of the DGs, a lot of log-rolling goes on to give member states roughly the right number and influence, in proportion to their size. Thus it was known in February 1991 that a Spaniard would take over the social policy directorate in October 1992 because Spain was one down on its quota, having made way for the UK at the transport DG, Belgium, by contrast, was temporarily one up on its quota; the key to the

reshuffle was that there was a Belgian director general at social affairs who was due to retire.

But this sort of musical chairs has spread further down Commission ranks, spreading demoralisation along the way. One reason, made plain in a Commission working document on recruitment of last November, is that "geographical imbalances among applicants are persisting or getting worse."

The Commission chooses from a far smaller pool than national bureaucracies, and in the past five years there has been a sharp rise in applicants from Belgium and Italy and a steep fall in British and German candidates.

Among the large member states, the UK has always been under-represented; whereas France, Italy and Germany all have more than 600 A-grade functionaries, Britain has fewer than 500.

As a latecomer this is partly understandable, and it is also to be expected that a certain amount of manoeuvring goes on to try to redress this and other imbalances - particularly given what one official calls the "clientelist" practices of some member states as Greece and Italy.

The underlying problem is a hopeless imbalance in supply. Of the 93,891 applicants for the 3,459 A-grade posts advertised by competition in 1988-91, the Commission report shows, the UK fielded only 4,968, Denmark only 1,574, against 24,734 from host

country Belgium, 18,539 from Italy and 10,333 from France.

The semi-detached Danes and British, though least interested in applying, have the best pass rates (5.8 and 3.7 per cent respectively, against, say, 2.8 and 1.6 per cent of successful applicants from Belgium and Italy). Nevertheless, by sheer weight of numbers, Belgium and Italy get between three and six times more people into the top of the Commission than Britain and Denmark.

Part of the reason is that Brussels goes after too many specialists, who face exams that a French-style elite school provides better preparation for than more generalist training common in such countries as the UK.

Officials say a more rounded approach is now being discussed: to recruit more generalists; give them a broader grounding by passing them through several departments before allocating fixed jobs; and relying more on temporary secondment from national administrations.

This last is partly to circumvent tight restrictions on hiring. The Commission is kept small, in relative terms, numbering 14,533 officials at the end of last year, or about the size of the UK agriculture ministry. The EC countries average 322 civil servants per 10,000 inhabitants, against only 0.8 per 10,000 for all EC institutions together.

Widening the recruitment pool, plus the precedent set by the Court, should help the Commission to resist nationalist lobbying, but officials warn that pressures for a carve-up will remain. "Yes, it will help to resist these pressures," says one senior official. "But to go from there to saying we're going to be recruiting entirely on merit is unrealistic."

EC given food for thought over allocating plum jobs

THE EUROPEAN Court has just blown the gaff on the common practice at the European Commission of recruiting into its top echelons by national quotas, rather than on merit, as EC rules formally require.

The landmark ruling has been widely interpreted as a political blow to the Commission, but it has got some senior Brussels officials rubbing their hands with glee.

Far from damaging the Commission, the judgment has provided it with a weapon to resist member states that insist on slotting candidates they choose into plum Brussels jobs whether or not they are suitable.

هنا من الشرق

PLO puts off peace talks decision

By Roger Matthews in Cairo and James Whitington in Damascus

THE Palestinians will delay a decision on whether to attend the next round of Middle East peace talks until April 8, Mr Yasser Arafat, chairman of the Palestine Liberation Organisation, announced yesterday.

Mr Arafat told the Middle East News Agency in Cairo that he would be asking President Hosni Mubarak, the Egyptian leader, to explain the Palestinian position when he meets President Bill Clinton in Washington on April 6.

Mr Mubarak will visit Germany and Britain this week before heading off to the US. On Saturday he held talks in Cairo with President Hafez al-Assad of Syria in an effort to reach a joint Arab response to the American invitation to resume peace negotiations in Washington on April 20.

The foreign ministers of Syria, Jordan, Lebanon, Egypt and the PLO also met in Damascus yesterday to consider the US invitation. However Mr Arafat said the PLO executive committee wanted an opportunity to assess the result of current talks in Washington between members of the Palestinian peace talks delegation and administration officials before reaching a final decision.

The Palestinians have so far declined to accept the US invitation without an assurance from Israel that it will stop the mass deportations of people from the occupied territories.

The demand stemmed from Israel's deportation of 415 Palestinians on December 17, an action condemned by the UN Security Council.

Syria, Lebanon and Jordan are all keen to resume negotiations, but wish to find some compromise solution which will also allow the Palestinians to participate. Representatives from all the delegations are expected to meet again in the wake of Mr Mubarak's talks in Washington.

New man ascends a triple throne

Beijing is again engaged in delicate transition from one generation of leaders to the next, writes Tony Walker

TRAVELLING west from the vast Tiananmen Square in the heart of Beijing along Chang An ("Heavenly Peace") boulevard, you pass on your right huge, studded, vermilion gates flanked by a pair of heavy, stone imperial lions.

The masses do not dawdle outside these gates, since they would be waved away by smartly attired honour guards of the People's Liberation Army, who snap to attention as black limousines, their windows heavily tinted to hide the identities of the occupants, slide back and forth into the traffic, guided by police outriders.

This is the entrance to the Zhongnan Hai (Middle and South Lakes) compound of the Chinese leadership from where the destiny of one-fifth of mankind is guided and where momentous decisions have been taken that have literally rocked the world, including the order in June 1989 to the army to put down pro-democracy protests in Tiananmen square just a few hundred metres to the east.

These days, as winter turns to spring in the Chinese capital, things appear relatively calm, although beneath the surface, unease persists, not so much, one suspects, because of lingering animus about the events of June 4, but because China is once again engaged in a delicate transition from one generation of leaders to the next.

For the moment, hopes of a smooth transition have been vested in a leadership group that includes Mr Li Peng, the Premier, and Mr Jiang Zemin, the apparently affable Communist Party boss, Chairman of the Central Military Commission and now President, or head of state.

Not since Mao Zedong dominated state and party institutions in the 1950s has one man, apart from the briefly anointed Hua Guofeng (there was no position of president when he served as premier and party boss in the 1970s and early 1980s) had the three roles of head of party, state and military.

Thus, the 67-year-old Mr Jiang at the weekend attained a trio of leadership positions that will nominally place him

at the very pinnacle of authority in the world's most populous country. As he contemplates his bounty from the high-walled seclusion of the Zhongnan Hai compound, Mr Jiang probably cannot quite believe his good fortune.

Nor, it must be said, can many Chinese and foreign

observers who are not persuaded that he is of the "right stuff" to guide his country further into uncharted waters: from a centrally-planned state under rigid communist party diktat to a modernising market-oriented economy under looser central control.

Indeed, the fact that he

has never been premier, president or party boss: he has not needed titles to assert his authority.

Mr Jiang, who is being referred to in China's official propaganda as the "core" of the leadership, was not even a member of the Standing Committee of the Politburo, the

normal springboard for even higher office, when he was hastily moved from Shanghai, where he was mayor, to Beijing in mid-1989, just weeks after the Tiananmen massacre.

Among his qualifications for the job, apparently, was his lack of direct involvement in the decision to crack down on the protesters.

His official profile reveals that he was born in August, 1926 in Yanchou City, Jiangsu Province in eastern China not far from Shanghai. The son of intellectuals (his communist father Jiang Shangying is said to have died at the hands of the Kuomintang), Mr Jiang graduated as an engineer from Shanghai's Jiaotong University in 1947, a year after joining the communist party.

After the 1949 revolution, there followed a series of fairly humdrum jobs, including boss of a foodstuffs factory. One highlight was his posting to the Soviet Union in 1955 to work in the Stalin Automobile Factory in Moscow where he learned a smattering of Russian.

Chinese propaganda makes much of Mr Jiang's linguistic skills (he is also said to be able to speak English and Romanian) and his musical abilities. Thus Xinhua, China's news agency, in a recent profile, painted a picture of a cultured leader "capable of appreciating literature, arts, music and painting".

China's new president is married to his childhood sweetheart, Wang Yeping, the former head of a Shanghai engineering research institute. The couple have two sons. There is at least one grandchild.

While seeking to present Mr Jiang as an avuncular figure worthy of the love and respect of the masses, the Xinhua biography pointedly mentioned, as might be expected of the putative father of the nation, that he is "strict with his children".

Little is known of what fate might have befallen him during that defining moment for many of China's leaders, the Cultural Revolution of 1966-1976, but it seems that he weathered those storms fairly adequately. Mr Jiang, one suspects, has invariably managed to be politically correct, whatever winds might have been blowing at the time.

Mr Qiao, 69, who is in charge of security matters, is likely to emerge as a key figure in the post-Deng era. His security responsibilities have tended to keep him in the shadows until now.



Premier Li Peng looks confident as he waits for the start of voting for senior Chinese government posts yesterday. He was reappointed for another five-year term, unopposed.

CHINA'S parliament appointed new state functionaries at the weekend to smooth the transition from old-guard revolutionaries to a younger, more technocratic leadership, Tony Walker writes from Beijing.

The appointment of Mr Jiang Zemin, 67, the general secretary of the Communist Party and chairman of the Central Military Commission, to the additional post of state president is aimed at strengthening collective leadership in the post-Deng Xiaoping era.

Likewise, the reappointment of Mr Li Peng, 65, to a second five-year term is

intended to solidify the leadership group in this transition phase.

Mr Deng, China's supreme leader, is 88 and has aged noticeably in the past year or so.

He has urged Chinese officials to speed economic reform, and has been engaged recently in promoting a younger generation of reformists to preserve his legacy, although doubts persist over the cautious Mr Li's commitment to change.

The leadership was clearly intent on sending a strong signal to the international community of its commitment to continue opening its economy with the

appointment as vice-president of Mr Rong Yiren, the millionaire head of China International Trust and Investment Corporation.

Among other significant appointments was that of Mr Qiao Shi, a member of the Standing Committee of the Politburo, to the post of chairman of the Standing Committee of the National People's Congress, China's parliament.

Mr Qiao, 69, who is in charge of security matters, is likely to emerge as a key figure in the post-Deng era. His security responsibilities have tended to keep him in the shadows until now.

Kenya denies rift with donors

By Michael Holman

THE Kenyan government has dismissed claims of a rift with donors and denied allegations of malpractice in the country's banking sector.

The government is continuing the dialogue with the IMF and World Bank and other donors, but on the basis of more rational and sustainable measures," Mr Musalia Mueda, the minister of finance, said in a statement at the weekend.

Donors and bankers had expressed deep concern over the government's decision last Monday to suspend or reverse key elements of its economic reform programme. President Daniel arap Moi had earlier accused the IMF and the Bank of forcing "dictatorial and suicidal" measures on the government.

Last week's decision was "intended to save the economy from collapse, it was not intended to result in a break with the Fund or the Bank," said the minister.

The minister denied allegations of fraud in connection with an export compensation scheme.

He also rejected reports that certain banks said to have political connections received favoured treatment.

"It is true that a few banks have run overdrafts with the central bank due to liquidity problems resulting from financial liberalisation, adverse publicity and other underlying problems," said the minister.

But he stressed that the banks were not insolvent, and had "substantial fixed assets which are in the process of being liquidated to generate liquidity". To deny them overdrafts would have caused "upheavals" in the financial system and "untold suffering to innocent depositors", he explained.

"The running of overdrafts was considered the lesser evil," he added, "especially considering that the banks involved were being restructured to eliminate the need for overdrafts."

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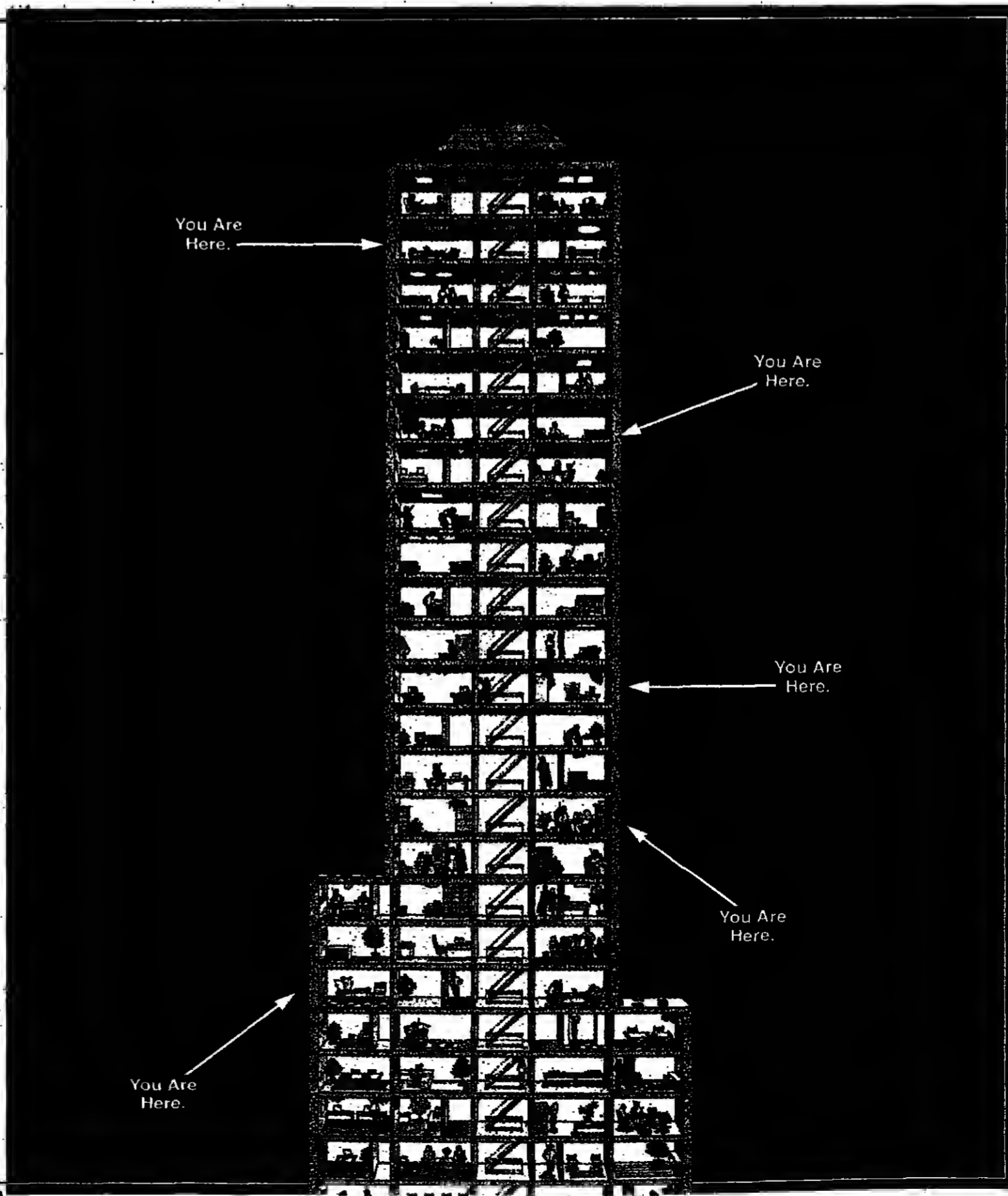
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NEWS: INTERNATIONAL

Pollution rights go to auction

Laurie Morse in Chicago on a new move to curb SO₂ emissions

THE US Environmental Protection Agency today announces the results of its first public auction of pollution rights, a benchmark in its novel market-based strategy to reduce acid rain.

The agency has doled out emissions permits to 110 of the largest sulphur dioxide (SO₂) polluters, most of them coal-burning electric utilities, and will allow the companies to trade any permits, or "allowances", they hold in excess of their own requirements to meet pollution standards.

A utility that has, for example, reduced its harmful emissions by installing smokestack "scrubbers", or has switched to low-sulphur coal or natural gas, might recover costs by selling excess SO₂ allowances.

The 1990 Clean Air Act requires US electric utilities to halve their emissions of sulphur dioxide, the harmful element in acid rain, by the year 2000. The EPA plans to phase in its tougher standards, and the pollution allowance programme, in two phases. The first phase will involve an annual issue of permits from 1995 to 1999.

The second phase, starting in 2000, will require all SO₂ polluters, not just the dirtiest utilities, to meet compliance standards, and SO₂ allowances will be limited to 8.9m tons annually, well below the 20m tons currently generated each year in the US.

The programme has been endorsed by both political parties and by environmental groups such as the Environmental Defence Fund, because it provides a cost-effective alternative to "command and control" regulation. Its proponents, including Vice-President Al Gore, believe the SO₂ experiment will lead to other market-based ways to control environmental disruption.

Only a small percentage of allocated emissions allowances will be priced and traded at this month's auction, which is being conducted by the Chicago Board of Trade. The CBoT won the right to administer the auction in a three-way bidding war with the New York Mercantile Exchange and the New York-based financial broker-dealer Cantor Fitzgerald.

All three hope to develop lucrative markets in environ-

mental rights, though regulatory hurdles have so far limited trading in the SO₂ allowances. Cantor Fitzgerald has set up a special division, Environmental Brokerage Services, to create screen-traded forward markets for pollution rights. The SO₂ allowances will be its first product.

"We see a great opportunity here," says Mr Carlton Bartels, director of the division. "There are two important trends emerging in this country. First, people are demanding a cleaner environment, and second, the government doesn't have any money to waste. There is great potential in market-based allocation systems."

The CBoT hopes to develop an electronic spot market in pollution allowances, and later, a futures market. The Nymex, which expects to launch electricity futures some time next year, believes its energy-market constituency will give it a way into the pollution market.

Despite the enthusiasm, utilities are wary of the market and trading has been spotty. Most are nervous about how

their main overseers, state public utility commissions, will treat a pollution trade. The state agencies so far have not formulated policies on how SO₂ allowances will be accounted for, and if cost savings or profits would pass to shareholders or utility customers.

The utilities are also sensitive to environmental activists. When Long Island Lighting (Lilco), a New York utility whose emissions generally blow out to sea, sold its SO₂ allowances to Amstar Energy, a coal producer which intends to market the permits with its high-sulphur coal to midwestern utilities, New York State and an Adirondack mountains environmental group cried foul.

They fear acid rain in New York will worsen under the programme, because it could allow tall midwestern smokestacks upwind to increase SO₂ emissions. Their objections are not expected to block the programme. However, the case generated unwelcome publicity for Lilco.

Utilities participating in EPA's auction this week can sidestep that problem by

remaining anonymous and using CBoT clearing firms to execute their bids. EPA has set aside 50,000 phase one permits, and 100,000 phase two permits to sell at the auction. These will be sold to the highest bidder until all are allocated. Each permit represents one ton of sulphur dioxide emissions.

In addition, the CBoT has been commissioned by utility companies to sell 95,000 phase one and 30,000 phase two permits. Those permits will be subject to minimum prices.

The results will provide the first public price discovery for the programme. "Cash trades in allowances have been extremely rare because of the difficulty in establishing a market price for them," says Mr Kenneth Rosenzweig, a partner in the Chicago law firm of Schiff, Hardin and Waite who is advising clients on the emerging market.

Presumably, the permits will be priced below the cost of installing scrubbers, and well below the \$2,000-a-ton fine the EPA plans to levy on polluters who do not comply with the programme's emissions standards.

Lend to private sector, bank told

A HIGH-LEVEL group established to advise the Inter-American Development Bank on how to strengthen the private sector in Latin America has recommended that the bank lend money directly to private concerns.

There are growing worries that without a shift in bank policy it might be impossible to obtain finance for infrastructure projects, which many Latin governments - after a wave of privatisation - are now relying on the private sector to build. The World Bank and the IADB are both forbidden from lending without government guarantees.

The group's report, put before the IADB board of governors at the weekend, recommended 5-10 per cent of the bank's lending could be directed to helping finance private infrastructure, without government guarantees. Limited sums might also be lent to private-sector intermediaries financing small businesses.

The Bush administration in the US last year said the bank should consider lending to the private sector, and the idea is favoured by Chile, Argentina and now Mexico, which previously opposed it. However, European government shareholders were lukewarm.

The group's report also recommended radical restructuring of the Inter-American Investment Corporation, the offshoot of the bank which lends to and makes equity investment in private projects. The corporation has been given "a mission impossible" and its current structure was "no longer viable". However, it should continue as a separate entity, the report said.

The Bush administration suggested the IIC should be merged with the bank. Ecuador's finance minister, Mr Mario Ribadeneira, met the country's main bank creditors, led by Lloyds of Britain, in negotiations over a debt relief package. Negotiations are expected today over Brazil's debt restructuring and tomorrow over Poland's.

Stephen Fidler reports from the IADB meeting in Hamburg

Interest rate rise may be threat to Latin America

A MOVE to higher interest rates in industrialised countries could have destabilising effects on Latin American economies, the Inter-American Development Bank says today. The risk arises because of the region's significant reliance on capital inflows drawn by higher interest rates.

"The possibility for a reduction of external capital inflows in the near and medium term, brought on by the possibility of higher interest rates in industrialised countries, could have a destabilising effect on the economies of the region," the bank says in its annual report.

The prospects for further growth in the region are otherwise encouraging. Nonetheless, economic growth in Latin America slowed from 3.2 per cent in 1991 to 2.8 per cent in 1992, with the 1 per cent fall in

Brazilian gross domestic product last year accounting for much of the slowdown.

However, deteriorating trade pushed up the region's current account deficit to \$26.5bn (£18.6bn) last year from \$17bn in 1991. "While a current account deficit of this magnitude is probably not sustainable over the long term, it is mainly the product of the region's economic recovery and increased capital inflows."

Foreign exchange reserves rose to cover six months of imports, with net transfers of funds into the region, which were negative from 1982 to 1990, rising from a positive \$8bn in 1991 to \$27bn last year.

The report emphasised the need for social reforms: "Economic and social reforms are mutually reinforcing, ensuring each other's sustainability."

Argentina to sell state gas wells

THE Argentine government has decided to auction more gas wells belonging to the state-owned oil company YPF, before the company's privatisation this year.

Argentine officials said the sale was in response to concerns that the company, which holds up to 80 per cent of the country's gas reserves, would be able to exploit its virtual monopoly position in gas once it was privatised. The aim would be to reduce its share of gas reserves to 40 per cent.

YPF is the oldest state oil company in the world and its valuation after a radical restructuring - now almost complete - has been put by the government at \$3bn (£5.5bn). Gas pipeline and distribution companies were privatised last year.

The government has also set a schedule for the sale of the rest of YPF as a single entity. An initial public offering to international and domestic investors is scheduled for the third quarter of this year.

The officials said the government was also studying mechanisms to make sure control of the company was in private-sector hands after the offering, even though the government would remain the largest - though possibly a minority - shareholder. Possible options included converting the government's remaining shares into non-voting stock, and limiting its representation on the board.

Crédit Suisse First Boston and Merrill Lynch are likely to be given the mandate to handle the offering.

World machine tool production down 19% as recession bites

By Andrew Baxter

WORLDWIDE production of machine tools fell 19 per cent last year to \$34.6bn (£24bn), underlining the severity of the recession in virtually all the main markets for the metalworking machines on which manufacturing industry depends.

Consumption fell 20 per cent from \$39.4bn to \$31.4bn in the 34 countries covered by American Machine in its annual survey of the industry. The declines are the worst in the 30 years since the US magazine started its surveys.

The declines are led by a staggering fall of 31.8 per cent in Japanese consumption (36 per cent if measured in yen), while production has fallen from \$11.6bn to \$8.7bn.

Domestic demand has fallen because of excess capacity in the car and other customer industries.

Japan retains its position as top producer and user of machine tools, but Germany has closed the gap in second place. Even so, German consumption fell 16.8 per cent in dollar terms and is still falling this year.

The fallout from reunification, combined with high interest rates caused by heavy capital transfers to Germany's eastern states, is discouraging investment in machine tools in western Germany.

In the US, the world's third largest producing and consuming market, consumption fell 10.7 per cent but production was down only marginally from \$3.27bn to \$3.19bn.

Several machine tool builders have said recently that the US market is picking up steam, and domestic orders rose 2 per cent last year.

The few bright spots in the survey come from Asia.

China reported an increase of 20 per cent in production - from \$1.44bn to \$1.74bn - which took it from 10th to fifth place, while consumption rose 27 per cent to \$2.31bn.

The rises, says the magazine, seem to be the result of growth of a market economy in the southern provinces close to Hong Kong. However, it notes Chinese production figures are reported in renminbi, the internal currency and therefore may be inflated in dollar terms.

In Taiwan, domestic consumption rose 17.6 per cent to \$759.8m. But total production fell for the first time in living memory, albeit very marginally, from \$982.2m to \$983.7m.

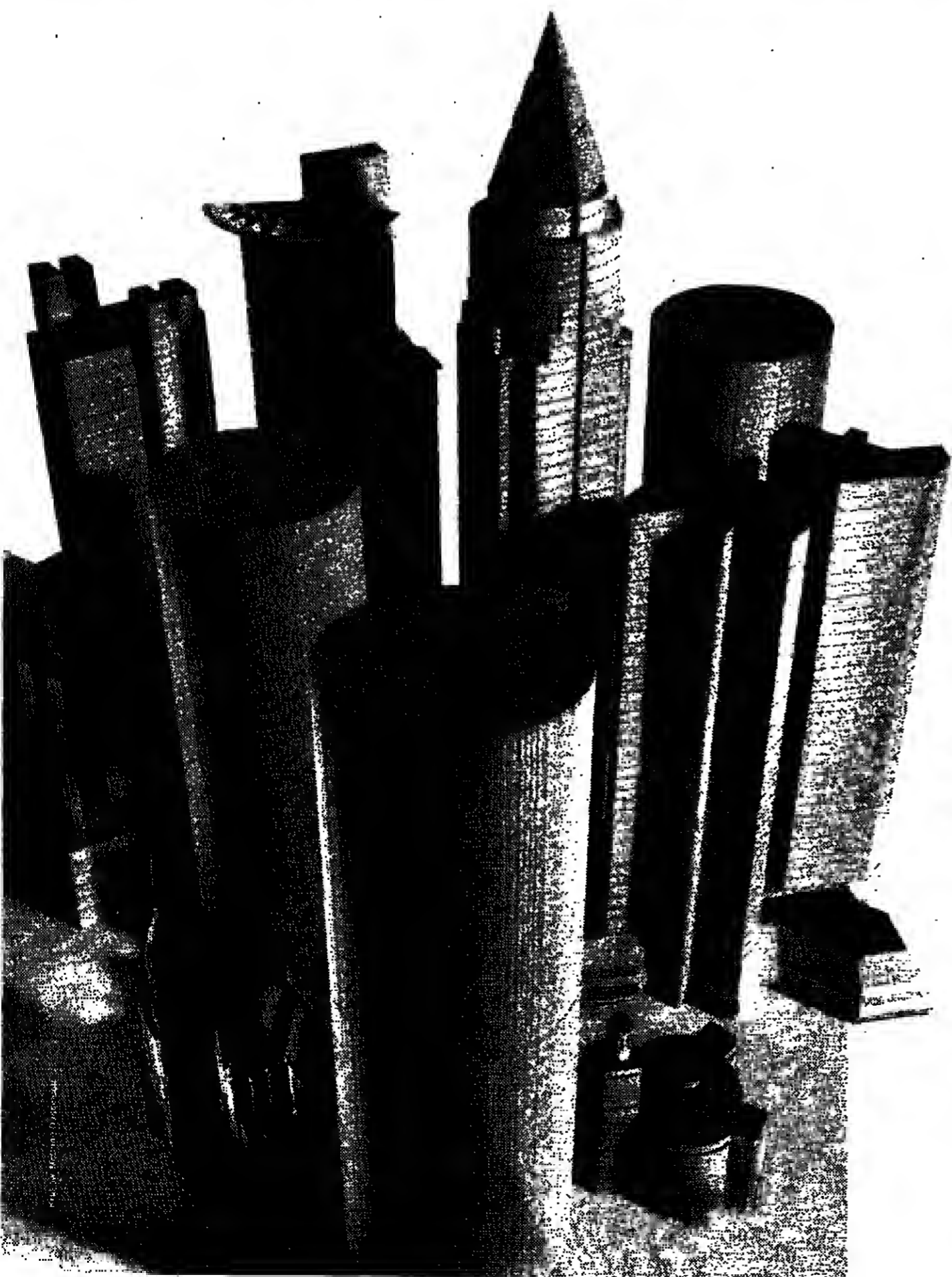
In contrast, both production and domestic consumption fell sharply last year in South Korea, where the machine tool market is in recession and producers' stocks have been rising.

Oil exporters study western energy taxes

OIL exporters are considering practical measures to counter US and European moves to impose energy taxes, including the possibility of an oil export tax, Gulf sources said yesterday. Renter reports from Dabul.

Foreign ministers of the Gulf Co-operation Council (GCC) will consider the western taxes in a meeting on April 4. The taxes will also be high on the agenda of an April 13 meeting in Oman between Opec and non-Opec oil ministers, the sources said.

Analysts believe a co-ordinated response would be difficult to achieve and the GCC, composed of pro-western countries, does not want to trigger a trade war. "They are not in a position to take strong counter-measures that could escalate a trade war or confrontation with their major trading partners," said a Gulf Arab official source.



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Yeltsin rides the Congress storms

By John Lloyd in Moscow

THE Russian Congress of People's Deputies usually refuses to run to a simple script. It is an inchoate body, made up of shifting factions and allegiances with many deputies lacking representative experience. But the key to the chaos and flows of resolutions, decisions and statements of this past weekend was the fact that the deputies lacked the necessary votes to impeach the president, Mr Boris Yeltsin.

This was despite the fact that after an appearance before the microphones which frightened his supporters and delighted his opponents because of its incoherence, he lost that sliver of support which had deprived his foes of the majority they needed to put the issue on the agenda. To the end, he seemed able to disappoint them of the two-thirds needed to impeach him.

The congress has registered great waves and troughs in the apparent strength of the opposing side. On Friday, the president kept firm to his insistence he held a referendum of April 25 on trust. He felt strong enough to taunt the deputies to put the question of trust in themselves on the ballot paper. The voices from the floor were looking for compromise, following the defection from the



Communist protesters size up police near Red Square in Moscow yesterday, amid tight security

impeachment camp of Mr Yeltsin. Khasbulatov, the parliamentary speaker, Saturday morning marked the beginning of efforts to find a compromise. A resolution was put forward, allowing the referendum but adding three more questions to the president's original one. These were: approval for election of the

deputies and approval of the results of economic reform, which the president has consistently supported and which is assumed unpopular. The president's side let it be known this was unacceptable.

Though they had gathered in the expectation of discussing impeachment, the issue had not got on the agenda: a vote confirmed that the necessary

Mr Victor Chernomyrdin, prime minister, gave heavily qualified support for his president, in which he was careful to say that "without the president we will not be able to carry the heavy burden [of reforms]". But it was also a speech which suggested all sides were equally guilty for the crisis which had overtaken Russia.

It made the point that a decree issued by Mr Yeltsin early last week dismissing the chief administrators of Novosibirsk and Irkutsk had had to be revoked; and that early elections were inevitable. The most cheered speaker was Mr Aman Tuleev, head of the Kamurov region, who branded Mr Yeltsin's aides as a "collective Rasputin". But pro-Yeltsin deputies took the floor to defend economic reform and charge the Congress with unconstitutional behaviour.

Mr Yeltsin's appearance before the microphones most harmed him. With slurred diction and long pauses, he said there should be a week of talks between himself, Mr Khasbulatov and Mr Chernomyrdin to try to find consensus. Opponents said he was drunk; his supporters said he was overstrained; his staff that he was suffering from the effects of his mother's death last week, an explanation he later proffered

himself in remarks to reporters.

Yesterday morning, another consensus appeared from behind the scenes. Said to have the support of the president, the speaker, the prime minister, the leaders of regions and republics and "several factions", this resolution scrapped the referendum in favour of November elections to a two-tier parliament (which meant the scrapping of the present Congress).

Mr Yeltsin said that were it to be supported, he would cancel his decree calling for a popular vote on April 25. There followed a dozen speakers, each of whom denounced the draft agreement if any faction really had put their name to it overnight, none admitted it in the hall. It went down with a mere 134 votes in favour.

A feature of the rhetoric on this issue was an increase in the calls for the resignation of the Speaker. The proposal to vote on the impeachment of the president was finally put on the agenda, with 594 deputies voting for its inclusion. Slightly more deputies (614) voted to ballot on a no-confidence motion on Mr Khasbulatov. Mr Yeltsin's vote required two-thirds of the total, that is, 689 out of 1,033: Mr Khasbulatov's majority was a mere 517.

LDP godfather faces more tax evasion charges

By Robert Thomson in Tokyo

JAPANESE prosecutors have filed further tax evasion charges against Mr Shin Kanemaru, the fallen "godfather" of the ruling Liberal Democratic party, and are continuing investigations into allegedly illegal political donations by leading construction companies.

Having already been charged with evading ¥119m (\$883,400) in tax for 1987, Mr Kanemaru was charged at the weekend with having evaded ¥920m in taxes for 1988 and 1989. His former secretary, Mr Masahisa Haibara, was charged with evading taxes totalling ¥280m from 1988 to 1991.

Mr Kanemaru has been in custody since March 6, in contrast to his previously lenient treatment from prosecutors. It remains unclear how tough the prosecutors will be in pursuing Japanese construction companies, but 18 leading contractors have been raided in the search for information about political donations. Mr Kanemaru is also not the only Japanese politician allegedly to

have received generous funding from the construction industry, raising the prospect that other leading LDP officials will be spotlighted.

However, the prosecutors, who have leaked many of their findings to Japanese newspapers, may see the publicity as warning enough to the industry and to politicians.

Prosecutors are said to be investigating whether charges of bribery can be sustained against a list of politicians who allegedly received funds from contractors. Construction industry representatives deny they have been a party to bribery, but have conceded that the system of political donations should be made more transparent.

The Fair Trade Commission, the anti-monopoly body, is also under public pressure to ensure there is no bid-rigging for public works projects.

Tokyo's District Court is due to rule today on a petition for Mr Kanemaru's release from custody. If found guilty in a case which may take many years to settle, he will have to pay ¥2.14bn in penalties and back taxes.

G7's reluctant convert to Russia's cause

WHEN a mainstream Japanese magazine recently shouted "Yeltsin, Starve to Death", the harsh headline reflected a frustration distilled during a century of unease between the two countries and made more potent by international demands that Tokyo assist the "unreliable Russians".

Through gritted teeth, Japan has invited Mr Yeltsin to the Tokyo summit of the Group of Seven nations, but there is a deep anguish that the country must be pleasant to Russia without the prospect of much in return. Also, there is annoyance that most G7 members are blind to the Japanese vision of history.

Other G7 countries may have haunting visions of the collapse of Russian democracy or of bloody civil war, but Japan dwells more on the past than the future. The preoccupation with settling old debts will colour the country's response in the coming months as the host-nation of the G7 summit in July, and play a sometimes difficult-to-perceive role in the international debate on Russia.

Given an uncompromised choice, Japan would not rush to provide assistance to Russia. But, wanting to avoid an embarrassing diplomatic isolation, the government has poured funds into Russia when there is no guarantee that they will be used profitably. The government has also agreed to host a meeting of G7 foreign and finance ministers in mid-April, an event that will itself increase the pressure on Tokyo to give generously.

Having once described the Russian leader as "dishonest", Mr Watanabe is a good case study of the conflicting emotions working away inside Japanese officials. Policy on Russia is handled almost solely by the Foreign Ministry, in contrast to, say, China policy, which is influenced by vested economic interests and the per-

sonal interests of powerful politicians.

While officials in Tokyo admit that China suffered terribly at the hands of the invading Japanese army, they are adamant that Russia was an unprincipled aggressor at the end of the Pacific war. The obvious symbol of this continuing "injustice" is the disputed Kurile Islands group, known here as the Northern Territories, and occupied by Soviet troops at the end of the war.

Mr Michio Royama, professor of international politics at Sophia University, explained that "historically, we don't have a friendly feeling towards

Robert Thomson on Japanese misgivings about aid

Russia," and that there is a "strong anti-Russian faction in the Foreign Ministry" which is distorting the Japanese reaction to the changes in that country.

"In the case of most countries, there are, you might say, 'pro' factions and 'anti' factions, as in the case of the US. This is not so with Russia," Professor Royama said. "There were a lot of frictions before World War Two, but people have forgotten what we did to Russia. Also, Russia has lost its power. It is not of value for Japan."

The rapid collapse of Russian power has exposed a long-hidden contempt in Tokyo, once intimidated by the Kremlin's claimed "moral authority" of communism and in awe of Soviet military prowess. Communism has lost that power to intimidate as an ideology, and Russia was revealed to be a decaying society.

Japan would prefer that other countries shared their suspicions. Professor Tadase Takubo of Kyorin University suggested that what Europeans see as a disaster, the dumping of Yeltsin, would serve Japan's interests. "The most desirable outcome in Russia for Japan is that Yeltsin is defeated before the summit; Europeans would then lose a reason for supporting Russia."



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Dr. Yuji Inoue
NTT researcher, architect of information and telecommunication networks for the advanced information society.
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DIVIDEND ANNOUNCEMENT

ON 24.03.93

The Board of Directors has announced the payment of dividends to shareholders of the following sub-funds:

- a dividend of 0.196 USD per share for EUROPE SUB-FUND
- a dividend of 0.197 USD per share for PACIFIC RIM SUB-FUND
- a dividend of 0.230 CHF per share for UNITED KINGDOM SUB-FUND
- a dividend of 0.230 USD per share for UNITED STATES SUB-FUND
- a dividend of 24.541 CHF per share for SWITZERLAND SUB-FUND

Dividends are payable on 24.03.93, and dividend date 25.03.93 payable on or after 26.03.93.

The Board of Directors

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GB£120,000,000 Subordinated Floating Rate Notes due 1995
Notice is hereby given that for the Interest Period from 29th March, 1993 to 29th June, 1993, the Note will carry a Rate of Interest of 6.7125% per annum. The amount of interest payable on 29th June, 1993 will be GB£2,030,301.60.
Agent Bank: Dai-ichi Kangyo Bank (Luxembourg) SA

NEWS: INTERNATIONAL

US defence decisions hinge on spending review

By George Graham in Washington

THE Clinton administration has postponed all big decisions on military force structure and defence equipment programmes until it has completed a "bottom-up review of defence needs and programmes".

Although the \$263.4bn (£185bn) defence budget for the 1994 fiscal year, presented at the weekend, cuts two Army divisions, two Navy aircraft carriers and the equivalent of nearly three Air Force fighter wings, Mr Les Aspin, US defence secretary, said he had only been able to make amendments to the budget bequeathed him by the outgoing Bush administration.

"We are dealing with a 1994 budget, the bulk of which has been written by the previous administration. We are essentially able to add and subtract from that defence budget but not really shape it from the ground up," he said.

The budget projects defence spending dropping steadily to \$246bn in 1997, before rising again to \$253.5bn in 1998.

The budget resolves none of the outstanding questions over costly and controversial equipment programmes such as the C-17 transport aircraft, the V-22 Osprey tilt-rotor aircraft, or the Seawolf submarine.

Procurement costs will be cut by 17 per cent in real terms to \$45.5bn,

but this is largely because no new B-2 bombers will be bought, and only three DDG-51 destroyers, decisions already made under the Bush administration.

Congressional critics have complained that the Pentagon will not be able to afford all its major programmes within the framework of President Bill Clinton's promise to cut deeply into defence spending, but funding is essentially preserved for all large procurement programmes, pending the outcome of the review.

Indeed, Mr Aspin has written back into the budget 24 new F-16 fighters that the Air Force said it did not want, in order to keep the

production line open until decisions have been made on future tactical aircraft for the Navy and the Air Force.

"This is a cautious budget on the weapons side. We are maintaining a lot of options," Mr Aspin said.

One weapons area where decisions have been made is the Strategic Defence Initiative, often known as Star Wars. While the new budget funds missile defence development at the same level of \$3.8bn as last year, money is shifted to short-range tactical defence systems such as the Patriot, and away from defences against ballistic missiles.

The new administration has, nevertheless, made sharp cuts in personnel and force structure to meet its targets for spending cuts. Active forces will be cut by 108,000 to 1.62m, with reserves dropping 60,000 to 1.02m and the Pentagon's civilian workforce falling by 45,000 to 519,000.

Combined with a government-wide pay freeze, this will cut military personnel costs by 9 per cent in inflation-adjusted terms to \$70.1bn in 1994.

Mr Aspin claimed that his predecessors, when faced with making budget savings, tended to make horizontal cuts, keeping the same number of divisions, carrier battle groups or tactical air wings, but reducing the number of men in

each unit, with the aim of filling them out when war came.

"I am not sure it was the right strategy in those days, in retrospect, but it is certainly not the right strategy now when the force structure is really more than we need for the kinds of threats that we are facing now," Mr Aspin said.

Pending the outcome of his review, Mr Aspin's interim force structure will cut the Army from 14 to 12 active divisions. The Navy will fall from 443 ships to 413, dropping to 12 aircraft carriers with the decommissioning of the Saratoga and the Forrestal. The Air Force will drop from 16.1 active fighter wing equivalents to 13.3, with one-

and-a-half wings eliminated in Europe and one in the US, as well as an additional wing from the air reserves.

At the same time, Mr Aspin promised to preserve budgets for training and operations to ensure that US forces remained at a high degree of readiness.

One new initiative is a specific \$300m allocation for peacekeeping exercises, which the US has previously paid for out of its regular operations accounts.

Mr Aspin acknowledged, however, that the allocation was likely to be too small, noting that the US deployment in Somalia was expected to cost \$700m.

Growth in world trade speeds up after 3 years

WORLD trade growth accelerated in 1992 after three years of slowdown, according to figures published today by the General Agreement on Tariffs and Trade. The main stimulus came from North America and Asia.

GATT forecasts in its annual world trade report that trade growth in 1993 will "at least equal" 1992, but warns that "much of the risk is on the downside". Noting that trade grew more slowly during the second half of 1992 as western Europe and Japan fell into recession, it said the acceleration needed to better 1992 "may be difficult to achieve".

The value of world trade grew by 5.5 per cent to \$3,700bn (£2,605bn), compared with growth of 1.5 per cent in 1991. The volume rose by 4.5 per cent, reversing a period of steady slowing since 1988, when growth fell from more than 8 per cent to 3.5 per cent in 1991.

The US maintained its position as the world's leading

exporter, lifting sales by 6 per cent to \$447bn. Behind it, Germany boosted exports by 6.5 per cent to \$425bn. Strongest gains came from China and Hong Kong, where exports rose

David Dodwell looks at GATT's annual world trade report

by 18.2 per cent and 20 per cent respectively. Taken together, they would overtake the UK to be the fifth biggest exporter.

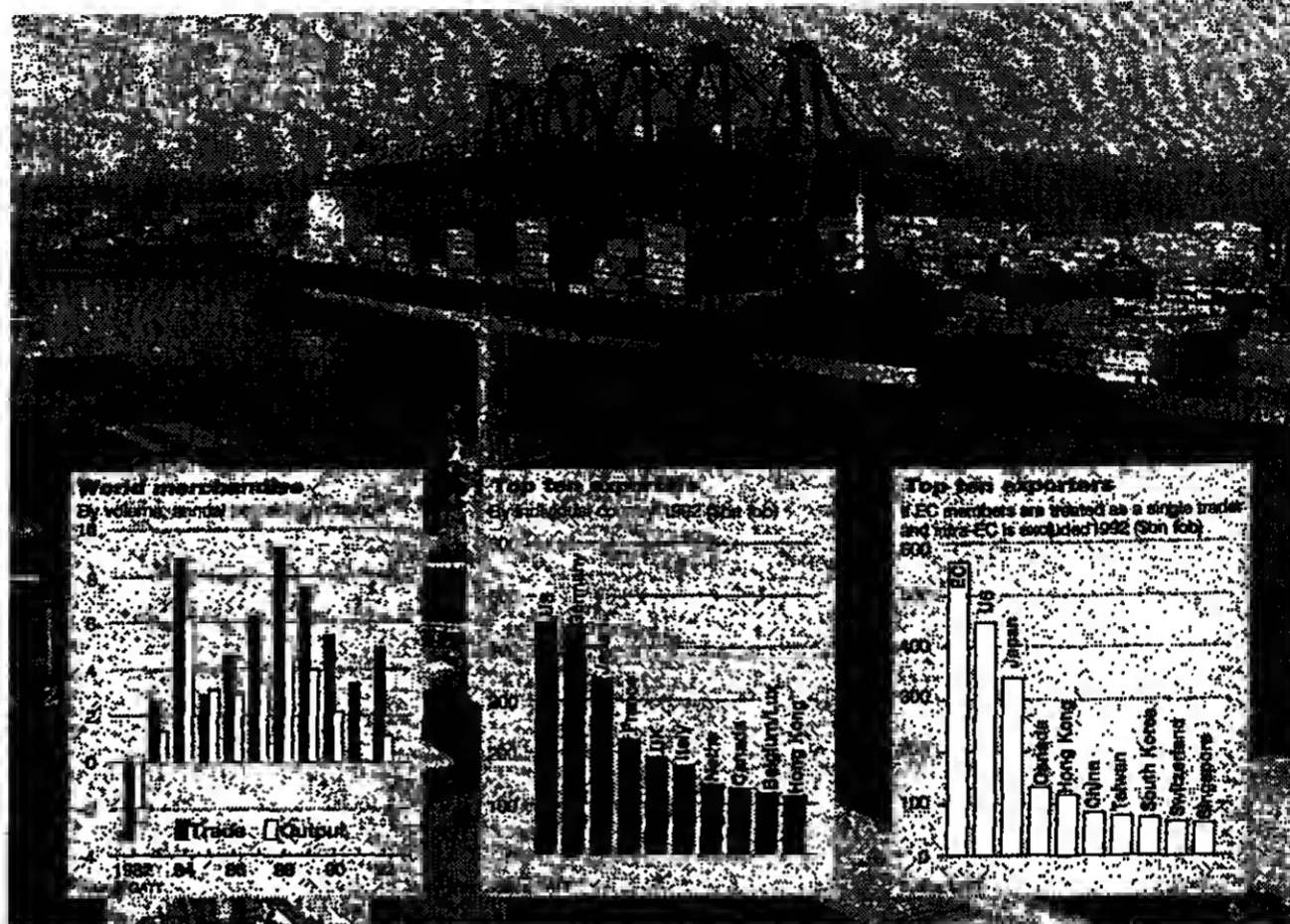
The US remained by far the leading importer, with a rise of 8.6 per cent to \$552bn; Germany was a distant second with \$408bn. A 1.8 per cent fall by Japan to \$233bn resulted in France overtaking it as the third largest importer. It bought merchandise worth \$240bn, up 3.4 per cent from \$232bn in 1991.

The greatest jump in imports came in Latin America, up 18.5 per cent to \$170bn. Mexico became the 17th biggest importer, with a rise of 23.5 per cent from \$66bn to \$82bn. Argentina, Chile and Venezuela also saw strong surges.

At a time when "trade has been a source of relative strength in an otherwise mostly weak economic environment", GATT calls for markets to be kept open, and for fresh efforts to conclude the Uruguay Round of talks on trade liberalisation.

The report shows trade in services growing from \$800bn to \$860bn last year, a rise of 8 per cent.

At the same time, the economies of central and eastern Europe began to show the first signs of export recovery since their painful transitions to market economies. While exports slipped by 10 per cent to \$85bn - an improvement from a 25 per cent slump in 1991 - sales to western Europe jumped by 20 per cent.



Russia falls from ranks of world's top 25 traders

THE countries of central and eastern Europe, excluding the former Soviet Union, expanded trade with the west last year for the first time since beginning their transition to market economies, GATT said.

While ground-breaking market access agreements signed with the European Community in March last year were credited with part of the turnaround, GATT noted that western European countries boosted their sales to the east even more strongly.

Meanwhile, Russia's trade continued to tumble. Exports to the west in 1992 amounted to just \$77.6bn (£19.4bn) - down 25 per cent from \$102.8bn in 1991. Imports fell similarly,

from \$25.6bn to \$20.2bn.

This trade disruption pulled Russia out of the world's top 25 traders, despite its dominant position in the trade of the USSR which ranked in the top 20 exporters in 1991. "To put this in perspective, Russia exported less than Norway, and imported less than Portugal," GATT said.

The value of exports from the region as a whole fell 10 per cent to \$85bn (after a 25 per cent fall in 1991). But this was entirely due to a 25 per cent fall in exports from the Commonwealth of Independent States (CIS) to \$35bn. In contrast, exports from the central and eastern European states of Bulgaria, Hungary, Poland,

Romania and the Czech and Slovak Republics, when taken alone, rose by 10 per cent to \$48bn. This was a rebound from a 14 per cent fall between 1990 and 1991 which swept exports down to \$43.6bn.

Western Europe's trade grew strongly with the region. Purchases from central and eastern Europe rose by 20 per cent from 1991 and 1992. Exports from the Czech and Slovak republics leapt 63 per cent from \$6bn to \$9.8bn, while exports from Romania jumped 43 per cent to \$2.8bn.

Main gains came in food products, steel and clothing, all products which are quota limited by last year's "Europe agreements".

Single market makes EC top exporter

THE completion of Europe's single market in January this year has had a radical impact on world trade, at least from a statistical point of view.

Not only does the European Community leap to first place as the world's leading exporter - far outstripping the US, with exports of \$566bn (£397.5bn) - but world trade falls from \$3,700bn to \$2,800bn, as sales between EC member states become domestic trade.

The disappearance of EC exporters such as Germany and France from the rankings of top traders also brings five Asian countries into the top 10 for the first time: Hong Kong is fifth followed by China, Taiwan and Korea. Singapore is at number 10.

Top trading nations suffer current account imbalances

THE CURRENT account imbalances of four of the world's five leading trading powers widened in 1992, GATT said.

When trade in both goods and services is taken into account, France was alone among the top five traders in moving into virtual balance on its current account.

Japan's current account surplus widened from \$73bn to a record \$118bn (£79.1bn) as recession cut imports.

In contrast, the US current account deficit leaped from a negligible \$1bn in 1991 to \$92bn as economic recovery sucked in imports.

Germany's current account deficit rose from \$20bn to

\$25bn in spite of slowing import growth, as recession began to bite in the second half of 1992. This was because of a higher deficit in trade in commercial services, and a falling surplus on investment income.

In the UK, beginnings of economic recovery saw a strong import surge boosting the current account deficit from \$11.4bn in 1991 to \$21bn last year.

Criticising the "popular press", and implicitly the US administration, for focusing political attention on widening merchandise trade gaps, GATT said "this is clearly inappropriate because trade in services is an important and growing part

of countries' trade."

Despite the numerical widening of imbalances, GATT noted that growth in these economies through the 1990s had meant that the current account deficits were smaller relative to GDP "than in most other years since the early 1980s".

Even in Japan, the surplus was lower last year in relation to the size of its economy than between 1985 and 1987.

Germany and the UK show the most worrisome trends, the UK slipping from a position in 1992 where it had the highest current account surplus of all five traders in terms of GDP to a position last year where it had the highest deficit, at 2 per cent of GDP.

Kantor may drop dumping inquiry

By Nancy Dunne in Washington

MR Mickey Kantor, US Trade Representative, may withdraw a request by his Republican predecessor that the US International Trade Commission perform an in-depth study on the impact of US dumping and subsidy rulings.

Republican members of the House Ways and Means Committee, meanwhile, have prepared for the possibility that the request will be withdrawn, by pushing for Congressional action which would allow the non-partisan ITC to proceed with the study. They have asked for a preliminary report by January 1994.

In a letter to Mr Dan Rostenkowski, chairman of the House Ways and Means subcommittee, Congressman Bill Archer and Phil Crane say the study is needed to evaluate proposed changes in US trade laws resulting from an end to the Uruguay Round. Generally, the requests of the minority are honoured as a Congressional courtesy.

The Washington trade community has been stirred up since it became public that Mrs Carla Hills, former US Trade Representative, had proposed the dumping study five days before her departure from office. Only the US Trade Representative, the Senate Finance Committee and the House Ways and Means committee can request ITC studies.

The "fair trade" regime is controversial; many Washington lawyers who defend foreign companies are convinced its procedures are intrinsically biased towards American companies and sometimes, politicised. Those who generally defend domestic companies see the laws as the only legitimate weapon against predatory imports. Mr Kantor sees the fair trade laws as a necessity. Trade apostle: see feature

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (ECU). The ECU exchange rate shows the number of national currency units per ECU. The nominal effective exchange rate is an index with 1985=100.

■ UNITED STATES					■ JAPAN					■ GERMANY					■ FRANCE					■ ITALY					■ UNITED KINGDOM						
	Exports	Imports	Current account balance	ECU exchange rate	Effective exchange rate		Exports	Imports	Current account balance	ECU exchange rate	Effective exchange rate		Exports	Imports	Current account balance	ECU exchange rate	Effective exchange rate		Exports	Imports	Current account balance	ECU exchange rate	Effective exchange rate		Exports	Imports	Current account balance	ECU exchange rate	Effective exchange rate		
1985	273.8	-174.2	-156.7	100.0	100.0	1985	230.5	78.0	64.5	180.50	100.0	242.8	33.4	21.7	2,238.0	100.0	135.4	-3.6	-2.2	6.7342	100.0	103.7	-16.0	-5.4	144.0	100.0	132.4	-5.7	4.7	0.5890	100.0
1986	290.8	-140.6	-180.0	0.9636	80.2	1986	211.1	96.2	66.8	188.11	124.4	246.9	33.4	20.3	2,127.9	106.8	127.1	0.0	3.0	6.7345	102.6	108.3	-14.2	-8.1	157.08	91.6	128.3	-14.2	0.1	0.7078	90.1
1987	220.2	-151.8	-141.5	1.1541	70.8	1987	197.3	86.1	75.5	166.59	133.2	254.5	56.8	38.6	2,077.0	115.3	128.3	-4.8	-3.5	6.8255	103.0	100.7	-7.5	-2.1	149.43	101.2	112.3	-16.4	-4.4	0.6707	90.1
1988	272.5	-100.2	-107.0	1.1633	80.8	1988	219.8	90.7	66.6	151.51	147.3	272.8	61.6	42.9	2,079.9	114.8	141.8	-3.5	-3.4	7.0554	100.8	108.3	-8.6	-8.0	150.66	97.6	120.8	-32.3	-24.3	0.6643	95.5
1989	330.2	-99.5	-91.8	1.1107	68.4	1989	245.3	70.5	52.4	151.87	141.9	310.2	63.3	32.2	2,069.1	113.5	175.9	-4.3	-3.6	7.0189	99.8	127.8	-11.3	-14.0	150.92	98.6	137.0	-36.7	-32.3	0.6728	92.6
1990	308.0	-79.3	-70.8	1.2745	61.1	1990	280.0	51.0	28.3	183.94	126.0	333.9	51.8	37.0	2,052.9	116.1	170.1	-7.2	-7.2	6.8822	104.8	139.6	-8.3	-16.4	182.22	100.8	142.3	-28.5	-23.8	0.7150	91.3
1991	340.8	-82.3	-3.0	1.2391	64.4	1991	247.5	63.2	63.0	165.44	137.0	327.4	11.2	-18.1	2,049.0	117.7	176.4	-4.2	-4.7	6.9643	102.7	187.0	-10.5	-28.0	183.13	98.9	147.7	-14.7	-9.0	0.7032	91.7
1992	346.5	-63.8	-48.2	1.2957	62.6	1992	254.8	102.0	69.8	164.05	142.6	330.3	16.5	-19.4	2,018.7	121.2	182.2	4.3	2.1	6.8420	106.0	197.9	-8.0	-18.1	191.5	95.7	145.1	-18.1	-16.1	0.7358	96.4
1st qtr.1992	87.3	-12.0	-5.0	1.2823	63.5	1992	65.0	26.1	22.7	162.21	142.2	83.2	3.1	-4.3	2,042.2	118.8	45.4	0.3	-1.1	6.9492	103.4	34.3	-5.1	-7.8	153.57	99.0	86.7	-4.3	-4.0	0.7126	90.6
2nd qtr.1992	86.7	-18.6	-14.4	1.2717	63.6	1992	63.1	25.4	22.6	165.80	139.8	81.1	3.6	-4.8	2,051.1	118.7	48.2	1.5	0.8	6.9122	104.4	35.8	-3.6	-11.1	154.63	98.5	86.7	-4.3	-4.0	0.7034	92.6
3rd qtr.1992	80.8	-18.2	-11.4	1.2531	60.1	1992	61.4	23.7	18.8	172.79	139.8	83.9	6.4	-8.6	2,022.1	122.1	45.2	0.9	0.0	6.8536	106.6	32.9	0.5	-8.2	156.46	99.2	86.7	-4.3	-4.0	0.7251	92.6
4th qtr.1992	92.4	-17.0	-17.4	1.2658	64.2	1992	65.6	27.0	24.8	155.57	146.7	82.1	3.4	-3.7	1,999.3	125.0	46.3	1.0	2.3	6.8929	109.3	34.9	0.0	-8.2	171.94	97.1	86.7	-4.3	-4.0	0.8015	79.8
March 1992	30.1	-4.6	n.a.	1.2308	65.1	1992	21.8	8.7	9.6	163.61	138.8	28.2	1.7	-0.2	2,045.6	118.4	15.5	0.23	-0.08	6.9429	103.4	12.1	-1.8	-2.2	153.67	98.8	12.5	-1.2	-1.16	0.7141	90.1
April	29.8	-5.7	n.a.	1.2436	64.8	1992	20.8	7.1	6.3	165.92	138.2	28.5	2.2	-0.9	2,043.9	118.6	15.8	1.10	0.08	6.9274	103.5	11.7	-1.2	-2.9	152.02	98.6	12.4	-1.9	-1.90	0.7076	91.4
May	28.2	-6.7	n.a.	1.2676	63.8	1992	20.8	9.3	8.8	165.57	139.7	28.6	0.6	-1.9	2,055.1	118.4	15.0	0.99	1.38	6.9390	104.5	11.5	-1.5	-3.4	154.68	98.5	13.0	-1.2	-1.17	0.7000	92.8
June	29.5	-5.2	n.a.	1.3039	62.9	1992	21.2	8.6	6.6	165.32	141.7	28.1	0.8	-1.9	2,049.8	118.1	15.4	-0.16	-0.54	6.9201	104.5	12.7	-0.5	-3.6	155.03	98.5	12.5	-1.8	-1.30	0.7027	92.6
July	27.8	-5.4	n.a.	1.3693	60.5	1992	20.4	6.2	6.9	172.22	139.2	28.3	1.0	-3.6	2,041.0	120.7	15.5	0.87	-0.18	6.8872	105.0	13.9	0.8	-4.4	154.62	99.5	12.3	-1.5	-1.06	0.7137	92.5
August	25.5	-8.5	n.a.	1.4014	58.8	1992	18.7	5.3	5.7	177.11	137.0	27.7	3.1	-0.9	2,032.8	122.0	14.2	-0.45	0.25	6.8844	106.3	7.7	1.1	-2.4	154.34	100.1	12.3	-1.6	-1.06	0.7137	92.5
September	27.5	-6.8	n.a.	1.3786	60.2	1992	21.2	6.3	7.2	168.05	142.5	27.8	2.5	-1.8	1,998.7	123.8	15.6	0.49	-0.04	6.8732	107.8	11.3	-1.4	-1.4	160.41	95.0	11.8	-1.3	-0.85	0.7428	98.2
October	29.6	-5.5	n.a.	1.3210	62.1	1992	21.8	8.2	7.9	159.93	143.2	28.6	2.4	-0.8	1,985.4	125.7	15.1	0.11	0.09	6.8588	110.0	12.4	0.1	-1.7	172.36	97.3	11.5	-1.4	-1.18	0.7869	80.8
November	30.8	-5.5	n.a.	1.2672	65.1	1992	22.2	8.1	8.4	153.22	150.3	28.6	0.8	-0.3	1,993.4	124.0	15.1	0.05	0.13	6.8426	108.0	10.8	-1.2	-1.6	168.70	98.7	11.4	-1.7	-1.50	0.8100	78.3
December	32.0	-5.8	n.a.	1.2391	65.3	1992	21.7	8.7	7.7	178.57	150.7	26.7	0.1	-2.5	1,935.9	128.3	15.1	0.81	1.14	6.8793	108.9	11.8	1.1	-1.7	174.5	95.8	11.5	-2.2	-1.39	0.7876	80.0
January 1993	30.9	-8.1	n.a.	1.1989	64.4	1993	23.3	8.9	7.4	146.62	151.3	26.7	0.1	-2.5	1,935.9	128.3	15.1	0.81	1.14	6.8793	108.9	11.8	1.1	-1.7	174.5	95.8	11.5	-2.2	-1.39	0.7876	80.0
February				1.1767	66.7	1993				142.00	159.2				1,931.6	128.3				6.8442	110.3										1993 January

Heseltine fails to win over Tory rebels ■ Power generators start to sign new contracts worth £5.5bn

Government faces fresh split over coal

By Ralph Atkins and Michael Smith

THE BRITISH government is facing the threat of an internal split over the coal industry after ministers failed at the weekend to calm fears that 12 mines granted an apparent reprieve last week could still face closure.

Reluctant to admit that the ruling Conservative party was still struggling to win support for its policy on the future of UK-mined coal, Mr Michael Heseltine, trade and industry secretary, said "dramatic opportunities" had been given to the industry via government

subsidies worth at least £300m to £400m.

A hint from British Coal executives that further pit closures were inevitable around April next year was, "one hypothetical doom-laden scenario," Mr Heseltine argued on BBC television. But he admitted he could not "sign up in blood" to plans remaining open.

In parliament, government business managers are braced for at least two Conservative MPs to vote against the government and for another six or more to abstain. A trade union lobby of Parliament will increase the pressure on wavering Tories but the gov-

The electricity and coal industries yesterday cleared the way for negotiations aimed at saving threatened pits when they started signing contracts worth £5.5bn over five years to British Coal.

The deals, concluded just three days before existing three-year contracts expire and after nearly a year of

intense negotiations, will secure a long term future for the 19 pits which British Coal regards as its best. The future, however, of another 19 pits which will stay open or be mothballed following last week's policy document will be determined by talks in the next few weeks between British Coal and the generators.

In a move deliberately timed to help the vote, Mr Peter Lilley, social security secretary, will today announce extra help for former miners suffering from chronic bronchitis and emphysema, implementing

recommendations last November by the Industrial Injuries Advisory Committee.

Industry Displacement benefit will be available to those sufferers who have worked more than 20 years underground. The department is expected about 80,000 applications.

Possible Tory coal rebels are to meet this morning to discuss tactics. The most vociferous yesterday, Mr Winston Churchill, said he was "looking for very specific assurances by the chairman of British Coal" about the future of the 12 reprieved pits. Without them, "the government would need to be very worried about its

majority," he said.

Mrs Elizabeth Peacock, another Tory MP, said measures in last week's coal policy document did not meet her concerns over the "dash for gas," electricity imports from France, opencast mining, and environmental issues.

Mr William Cash, MP for Stafford, said the debate on the industry had been rushed. "No doubt part of the reason is so that people could not focus on it properly."

However, two possible rebels - Mr David Nicholson and Dr Michael Clark - yesterday said they would support the government.

Britain in brief



Supermarkets accused of profiteering

The opposition Labour party has asked the Office of Fair Trading for an investigation into alleged "profiteering" by UK supermarket chains.

Labour's consumer affairs spokesman, Mr Nigel Griffiths, has written to Sir Bryan Carr-Saunders, the Director General of Fair Trading, claiming that statistics show supermarket profits have risen by 422 per cent in the past 10 years while producer prices have risen only 18 per cent.

Comparing UK margins with those in France, Mr Griffiths claimed Carrefour, France's largest supermarket group, increased its profits by 76 per cent over the same period. Gross margins for French supermarkets are around 16 per cent, compared with 23 per cent for UK market leaders, he added.

Concern at mail train robbery

British Transport Police fear a gang that robbed a mail train at one of London's main rail stations may flood the black market with vehicle tax discs and postal orders worth hundreds of thousands of pounds.

Two postal workers were assaulted and other staff threatened at gun point during the Friday-night raid at Euston station, police said. Documents used as Post Office counter supplies were stolen. British Rail has offered a £10,000 reward for information leading to the arrest and conviction of the robbers.

Jobless growth set to slow

The rate of increase in UK unemployment will continue to fall, with the smallest increases over the next year expected in the north west,

Scotland and Wales, according to an economist at one of Britain's clearing banks.

Mr David Kern, chief economist at National Westminster Bank, says that the number of UK jobs is expected to rise by a further 300,000 to 3.275m in March 1994. However, he says there is now evidence of a distinct slowdown in the rate of increase which will continue throughout the year.

Management pay rises 4.4%

Managers' basic pay rose by 4.4 per cent over the 12 months to February, according to a survey of more than 1,000 companies carried out by the pay research group, Reward.

The rate of pay increases for managers fell in the second part of the year - six months ago pay was rising at an annual rate of more than 5.5 per cent, the group found.

Competition urged for gas

The Monopolies and Mergers Commission is considering a strong call from British Gas's competitors for the liberalisation of the household gas supply market in its review of the industry. But this is countered by consumer groups and some North Sea oil producers which urge caution in changing the present situation.

In a Financial Times survey of evidence submitted to the commission - which is due to present its report to Mr Michael Heseltine, trade and industry secretary, on April 30 - all of British Gas's main competitors say they want to enter household sales.

Restrictions on tribunals

Industrial tribunals are to be given the power to restrict press reporting of sexual harassment cases, following a late government amendment to the employment bill. The amendment, due to be proposed today, is certain to be accepted. It will prevent either alleged victims or alleged harassers from being identified while a case is being heard. The measure could also be extended to protecting witnesses.

Gas engineering companies 'could lose 30,000 jobs'

By Deborah Hargreaves

GAS ENGINEERING companies could see the loss of 30,000 jobs by the end of the year because of uncertainty hanging over the sector, a senior industry executive warned yesterday.

Mr John Cull, managing director of Amec Utilities, said more than 200 engineering and service companies which produce pipes, valves, meters and other infrastructure have shed more than 10,000 jobs between them since British Gas began cutting back on spending earlier this year.

British Gas has cut its £300m annual investment programme by 20 per cent because of uncertainty over an inquiry into its business by the Monopolies and Mergers Commission, said Mr Cull, who is also president of the Society of British Gas Industries.

The society represents about 90 per cent of the engineering and service companies supplying British Gas.

The MMC inquiry should set a rate of return for British Gas's pipelines business and decide whether it should be

sold off, Mr Cull said. Ofgas, the industry regulator, has proposed British Gas should earn a return of between 2 per cent and 4.5 per cent on its pipelines. But the company says this is too low to cover further infrastructure investment.

Mr Cull said manufacturing throughput among the society's members has declined by 60 per cent compared with the same time last year. He believes British Gas is running down its stocks of pipes and not ordering new ones.

"These companies are well-managed, but they're suffering because of the battle between British Gas and Ofgas," he added.

Mr Cull has met Mr Tim Eggar, the energy minister, to express his fears about the industry. But Mr Eggar said the matter remains in the hands of the Monopolies and Mergers Commission. The commission's report is due out by the end of April, but Mr Cull fears the government will not take decisive action until close to the end of the year. By that time, service companies which rely on British Gas will be facing severe difficulties.



THE FIRST freight wagons designed for the Anglo-French Channel tunnel have been delivered to Folkestone, site of the rail terminal at the UK entrance to the under-sea rail link. It is expected that

8.5m tonnes of freight will be carried during the first year of operation. By the time freight operations begin in December there are expected to be more than 200 of the Italian-made shuttle wag-

ons ready to carry road vehicles through the tunnel. Each shuttle will comprise 28 wagons; each wagon will carry one large truck with a gross weight of up to 44 tonnes.

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Notice of Early Redemption

THE BOC GROUP

THE BOC GROUP plc

(Incorporated in England under the Companies Acts 1862 to 1983)

US\$ 100,000,000

8 3/4 % Bonds due 1996

(Common Code 1064703)

Notice is hereby given in accordance with Condition 4(c) of the Terms and Conditions of the above Bonds (the "Bonds") that The BOC Group plc (the "Issuer") will redeem all the Bonds still outstanding on 14th May 1993 (the "Redemption Date") at a price of 101 1/2% of their principal amount (the "Redemption Amount") plus accrued interest to the Redemption Date.

Payment of the Redemption Amount, together with accrued interest to the Redemption Date, will be made on or after the Redemption Date against presentation and surrender of the Bonds at the offices of any of the Paying Agents listed below. Bonds should be presented for payment together with all unexpired Coupons (the "Coupons"), failing which the face value of any missing unexpired Coupon will be deducted from the sum due for payment. Any amount of principal so deducted will be paid against surrender of the relative missing Coupon within 6 years from the date mentioned on the face of the Coupon or, if longer, 12 years from the relevant date for the payment of such principal, in accordance with the Terms and Conditions of the Bonds. Interest will cease to accrue on the Bonds on the Redemption Date.

PRINCIPAL PAYING AGENT

Swiss Bank Corporation
Aeschenvorstadt 1
4002 Basel
Switzerland

PAYING AGENTS

Swiss Bank Corporation
Swiss Bank House
1 High Timber Street
London EC4V 3SB
England

Swiss Bank Corporation (Canada)
207 Queen's Quay West
Suite 780
Toronto, Ontario
Canada M5J 1A7

Besque Internationale & Luxembourg S.A.
2 Boulevard Royal
Luxembourg
Luxembourg

By: Swiss Bank Corporation, Zurich
For and on behalf of The BOC Group plc
March 29, 1993

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Slough Estates plc

Notice of Redemption to the holders of the outstanding £150,000,000 6 per cent. Convertible Bonds Due 2003 ("the Bonds")

and

Notice of Adjustment of Conversion Price to take effect following the proposed rights issue of new ordinary shares announced on 25th March 1993

Redemption Date: 20th May 1993

Conversion right expires at midnight on 12th May 1993

Redemption

NOTICE IS HEREBY GIVEN that Slough Estates plc ("the Company") has elected, pursuant to Condition 10(b)(i) of the Bonds, to redeem all of the outstanding Bonds (except in the extent that the Bonds are converted before the due date for redemption) on 20th May 1993 ("the Redemption Date") at £120.84 per cent ("the Redemption Value"), being the principal amount of the outstanding Bonds together with supplementary interest.

On the Redemption Date the Redemption Value will become due and payable on all the Bonds.

In the case of the Bonds which are in registered form ("Registered Bonds"), payment of the Redemption Value will be made on the Redemption Date (or, if later, upon presentation and surrender to the Registrars, National Westminster Bank Plc, P.O. Box 42, Cannon House, Redcliffe Way, Bristol BS99 7NH of the relevant Registered Bonds) to the persons shown at the close of business on 20th April 1993 as being the registered holders of such Registered Bonds. Payments will be made in pounds sterling by cheque drawn on a town clearing branch of a bank in the City of London and mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, the expense of the holder) to the holder or to the first named of joint holders of such Registered Bonds at his registered address or in accordance with mandate instructions acceptable to the Registrars. All payments in respect of Registered Bonds will be made in each case subject to any fiscal or other local law and regulations, and otherwise in accordance with the Terms and Conditions of the Bonds.

In the case of the holders of the Bonds in bearer form ("Bearer Bonds"), payment of the Redemption Value will be made pursuant to Condition 8 of the Bonds against surrender at the office of one of the Paying and Conversion Agents specified below of the Bonds or Optioned Bond Receipts together with all interest coupons appearing to them ("the Coupons") maturing after the Redemption Date. If any Bearer Bond surrendered for redemption is not accompanied by all relative unexpired Coupons, the face value of any missing unexpired Coupon will be deducted from the amount due for payment. Any amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon not later than ten years from the date on which the Coupon would have become due. All Bonds and Coupons will become void unless they are presented for payment within ten years and five years respectively from the Relevant Date (as defined in Condition 11 of the Bonds) at the offices of one of the Paying and Conversion Agents specified below.

Conversion

The holder of any Bond has the right, subject to any applicable fiscal or other laws or regulations, at any time up to midnight on 12th May 1993 but in no event thereafter to convert such Bond into fully paid registered ordinary shares of 25p each in the Company ("ordinary shares"). The current conversion price is 318p. This compares with a middle market price, as shown by the Daily Official List of the London Stock Exchange on 25th March 1993, of 192.5p per ordinary share. The number of ordinary shares to be issued on conversion is determined by dividing the principal amount of the relevant Bond(s) by the conversion price.

Rights Issue and Adjustment to Conversion Price

On 25th March 1993 the Company announced a rights issue of new ordinary shares ("the Rights Issue") to holders of ordinary shares and to holders of cumulative redeemable convertible preference shares of 25p each in the capital of the Company ("Convertible Preference Shares") on the register at the close of business on 25th March 1993 ("the Record Date"). Holders of Bonds who exercise their conversion rights after 25th March 1993 but before 13th April 1993, the Company will (i) issue the appropriate number of ordinary shares arising on conversion at the conversion price of 318p, and (ii) on or within 21 days of each such conversion issue such additional number of ordinary shares as would have been required to be issued if the adjustment referred to above had already taken place.

A copy of the Circular in connection with the Rights Issue, which comprises listing particulars relating to the Company in accordance with the listing rules made under Section 142 of the Financial Services Act 1986, may be obtained on application from the Principal Paying and Conversion Agent specified below.

Principal Paying and Conversion Agent

S.G. Warburg & Co. Limited
Paying Agency
6th Floor
1 Finsbury Avenue
London EC2M 2PA

Other Paying and Conversion Agents

Kreditbank S.A. Luxembourg
43 Boulevard Royal
L-2955 Luxembourg

Swiss Bank Corporation
Aeschenvorstadt 1
CH-4002 Basle
Switzerland

THE WEEK AHEAD

ECONOMICS

Markets face surfeit of news from France, Germany and the US

THIS week promises to be unusually busy for the time of the month.

Financial markets will be keenly anticipating clarification of the new French government's policies as well as its membership following yesterday's second round of the National Assembly elections.

In the US, a raft of statistics, culminating in Friday's non-farm payroll data for March, will give new insights into the strength of the US economic recovery and whether President Bill Clinton's deficit reduction plan has damaged consumer confidence.

The German Bundesbank's decision-making central council holds a regular fortnightly meeting on Thursday. Its decision late last week to cut the interest rate on its three-day Treasury bill sharply to 7.5 per cent has revived hopes that it may trim its official rates further in response to signs of accelerating economic slowdown in Germany.

Behind the scenes, senior officials in the foreign and finance ministries of the Group of Seven countries will be continuing urgent work on a support programme for the Russian economy. The possibility of new assistance for Russia will be raised in talks between Presidents Clinton and Yeltsin in Vancouver next weekend.

Meanwhile, rumbling trade



Source: Department of Labor

disputes between the US and its European Community partners will be given a new airing in talks between Mr Mickey Kantor, the US trade representative, and senior EC Commission officials in Brussels today and tomorrow.

In Britain, Mr Norman Lamont, the chancellor, and Mr Robin Leigh-Pemberton, the Bank of England governor, will be testifying on this month's Budget to the House of Commons Treasury and Civil Service Committee on Wednesday.

This week will see the release of important economic statistics from Japan, Germany and, in particular, the US. Tomorrow's March consumer confidence index in the US will be closely watched for signs of further deterioration following

the decline to 68.5 in February from 78.1 in December. February's US factory orders on Wednesday and the National Association of Purchasing Managers' index on Thursday will give an insight into the state of US manufacturing.

But most attention will focus on the March employment data. Non-farm payrolls increased by an unexpectedly strong 386,000 in February, the largest such rise since January 1989. Many analysts expect employment gains will have been much slower this month. Another unexpectedly strong rise would suggest that the economy continues to grow well and casts doubt on the need for the expansionary elements in President Clinton's economic policy.

The main statistical releases and events are as follows. The figures in brackets are averages of what financial markets expect, according to MMS International, an economics consultancy.

Today: US, February new home sales (\$67,000), personal income (up 0.5 per cent), personal consumption expenditure (up 0.4 per cent). Canada, January employment earnings (up 3.2 per cent on year). Germany, Inter-American Development Bank meets in Hamburg.

Tomorrow: US, March consumer confidence (67.4), Japan, February unemployment

rate. France, February unemployment rate (10.6 per cent). Australia, January current account (\$800m surplus). Canada, January real GDP at factor cost (up 0.3 per cent on month).

Wednesday: US, February leading indicator, factory goods orders, March Chicago NAPM. Japan, February construction orders, construction starts, housing starts.

Thursday: Germany, Bundesbank central council meeting. US, February construction spending (up 0.7 per cent), March NAPM index (56.0), initial claims week ending March 27 (\$47,000), money supply week ending March 22 (\$2.2 up \$1.8).

Friday: US, March non-farm payrolls (up 100,000), manufacturing payrolls (up 10,000), hourly earnings (up 0.2 per cent), unemployment rate (7 per cent). UK, March official reserves (unchanged), February housing starts. France, National Assembly resumes.

Saturday: Canada, Presidents Clinton and Yeltsin meet in Vancouver.

During the week Germany, February industrial production (down 1 per cent on month), manufacturing output (down 1.3 per cent on month). Italy, February official reserves, balance of payments.

Peter Norman

UK COMPANIES

TODAY
COMPANY MEETINGS:
Fidelity European Values,
25 Lovat Lane, EC, 3.00.
BOARD MEETINGS:
Finals:
Aspen Comms.
Computer People
Edinburgh Fd. Mngs.
Forth Ports
Hickson
Inchcape
Linred
Macallan-Glenlivet
Needler
Pearson
Interims:
Lucas Industries
MY Higgs.
Scottish Asian Inv.

WEDNESDAY
MARCH 31
COMPANY MEETINGS:
BWD Securities, Woodsome
House, Woodsome Park,
Fensy Bridge, Huddersfield,
11.30.
Gaidwell Invs., 12, York Place,
Leeds, 12.00.
Securicor Group, Richmond
Hill Hotel, Richmond Hill,
Richmond, Surrey,
12.30.
Security Services, Richmond
Hill Hotel, Richmond Hill,
Richmond, Surrey,
12.15.
Yeoman Inv. Trust, Bride
House, 20 Bride Lane, EC,
12.00.
BOARD MEETINGS:
Finals:
Arcon Res. Intl.

TOMORROW
COMPANY MEETINGS:
Allied Textile, Highburton,
Huddersfield, 12.00.
Baldwin, The Registry, Royal
Mint Court, EC, 10.00.
Castle Caim Inv. Trust, 1
Charlotte Square, Edinburgh,
12.30.
General Cons. Inv. Trust, 49,
Hay's Mews, W, 2.45.
BOARD MEETINGS:
Finals:
Avonmore Foods
BLP
Brake Bros
Cons. Venture Tst.
Coda Intl.
EBC

EW Fact
Henderson Highland
Hughes (T.J.)
Jeyes
Le Creuset
Macfarlane
Mayflower
Newman Tonks
Pison
Rhino
TT Group
Taylor Woodrow
Tibbitt & Britten
Waterford Wedgwood
Interim:
Allied London Props.

WEDNESDAY
MARCH 31
COMPANY MEETINGS:
BWD Securities, Woodsome
House, Woodsome Park,
Fensy Bridge, Huddersfield,
11.30.
Gaidwell Invs., 12, York Place,
Leeds, 12.00.
Securicor Group, Richmond
Hill Hotel, Richmond Hill,
Richmond, Surrey,
12.30.
Security Services, Richmond
Hill Hotel, Richmond Hill,
Richmond, Surrey,
12.15.
Yeoman Inv. Trust, Bride
House, 20 Bride Lane, EC,
12.00.
BOARD MEETINGS:
Finals:
Arcon Res. Intl.

TOMORROW
COMPANY MEETINGS:
Allied Textile, Highburton,
Huddersfield, 12.00.
Baldwin, The Registry, Royal
Mint Court, EC, 10.00.
Castle Caim Inv. Trust, 1
Charlotte Square, Edinburgh,
12.30.
General Cons. Inv. Trust, 49,
Hay's Mews, W, 2.45.
BOARD MEETINGS:
Finals:
Avonmore Foods
BLP
Brake Bros
Cons. Venture Tst.
Coda Intl.
EBC

Boxmore Intl.
Broadcast
Color
Central ITV
Culver
Fire Indmar
Gramplan Higgs.
Harrisons & Crossfield
Hay (Norman)
Hogg Group
House of Laroche
Johnson Grp. Cleaners
London Securities
Ocean Group
QS Higgs.
Scholl
Taylor Nelson AGB
Tibbitt Douglas
Interims:
Advest
Bridport-Gundry

WEDNESDAY
MARCH 31
COMPANY MEETINGS:
BWD Securities, Woodsome
House, Woodsome Park,
Fensy Bridge, Huddersfield,
11.30.
Gaidwell Invs., 12, York Place,
Leeds, 12.00.
Securicor Group, Richmond
Hill Hotel, Richmond Hill,
Richmond, Surrey,
12.30.
Security Services, Richmond
Hill Hotel, Richmond Hill,
Richmond, Surrey,
12.15.
Yeoman Inv. Trust, Bride
House, 20 Bride Lane, EC,
12.00.
BOARD MEETINGS:
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Arcon Res. Intl.

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BLP
Brake Bros
Cons. Venture Tst.
Coda Intl.
EBC

Burnah Castrol
Fairhaven
Great Southern
Jacobs (John L.)
Journan (Thomas)
TIS Range
World of Leather
Interims:
Gleeson
Sprax-Sarco Eng.

FRIDAY
APRIL 2
COMPANY MEETINGS:
City Merchants High Yield
Trust, 11 Devonshire Square,
EC, 2.15.
Lorho, The Barbican Hall,
Barbican Centre, Silk Street,
EC, 11.00.
BOARD MEETINGS:
Finals:
Assoc. Fisheries
British Dredging
Evered Bardon
Gaskell
Invesco MIM
Rathbone Bros
Shorro
Uster TV

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CONFERENCES & EXHIBITIONS

MARCH 30-31
USA Catalogue Exhibition
American companies seeking distributors,
agents, business and end-users in the UK
and/or Commonwealth Markets. Exhibition of
catalogues and videos at the Royal
Lancaster Hotel, London. Hours 10-5.
Special business card for free entry and
equality processing. No advance
registration required.

LONDON

APRIL 1 & 2
Banking and Finance in
Poland
Topics covered: Monetary policy,
banking regulation, financial risks,
taxation and privatisation and Government
fiscal problems. Contact: LSE Short
Courses Office.
Tel: 071 955 7227. Fax: 071 955 7676.

LONDON

APRIL 1-3
Cuba
Key government officials & international
experts, including Ernesto Melendez
Bacha, President of the State Committee,
and Sir Edward Heath, will tell delegates
about Cuba's potential & the practical
aspects of doing business there.
Contact: Karen Pedersen, Eurocom.
Tel: 071 779 8831. Fax: 071 779 8835.

LONDON

APRIL 1-7
The British International
Antiques Fair
150 Exhibitors showing a fine and
important selection of antiques. Dursley
1893 (Paintings 1930). All exhibits are
for sale and are examined by the Honorary
Valuing Committee. Open 11.00 am -
9.00 pm (daily). Closing 6.00 pm (Sat.
Sun. and First day). Enquiries: Linda
Colton, Crown Exhibitions.
Tel: 021 780 4141 (Ext 2760).

BERMINGHAM

APRIL 5 - MAY 24
FT City Course
The course is designed for employees of
companies with interests in the City. Its
objectives are to provide a broader
understanding of all aspects of the
operations of the City and the factors that
make it a pre-eminent financial node
in the world. Enquiries: Financial Times.
Tel: 071 814 9770. Fax: 071 873
3975/3969.

LONDON

APRIL 15
Automotive Management
Congress '93: The Motor Retail
Evolution
Only 20 Tickets left
Pena Heathrow - Vauxhall Chairman Bill
Ebert; David Beck MD Lex Retail; Geoff
Oster Chairman Evans Halshaw; Robert
Cotter Sales Director Jaguar; Trevor Fox
MD Peardings; Paul Quinley MD
Candian Motors; Tickets (inc. lunch) £195.
Contact: Janet Jiral. Tel: 081 687 2340.

MANAGEMENT

Call it the International Business Machines superstar wish-list.

When directors of the troubled computer company began looking for a new chief executive last January, they spent a great deal of time discussing the most desirable characteristics of the leader to replace Mr John Akers, who is retiring early because of the group's poor performance.

They finally fixed on a list of 11 qualities, says Mr James Burke, the non-executive director in charge of what turned into the most closely watched executive hunt in American business history.

Last Friday he disclosed the contents of the list, partly to help justify IBM's announcement that it had given the job to a man without a high technology background - Mr Lou Gerstner, the chairman and chief executive of food and tobacco group R.J.R. Nabisco.

In an interview with the FT, Mr Burke pointed out that only one item on the list referred to technology, and then with a qualification: "Information and high technology industry experience highly desirable, says the note, but not averse to considering extraordinary business leaders."

Mr Burke added that in his view IBM's problem is that "it is not run as much like a business as it needs to be". In these circumstances, "I think I would take a highly successful, tough-minded, strategic thinking businessman ahead of a technologist any day."

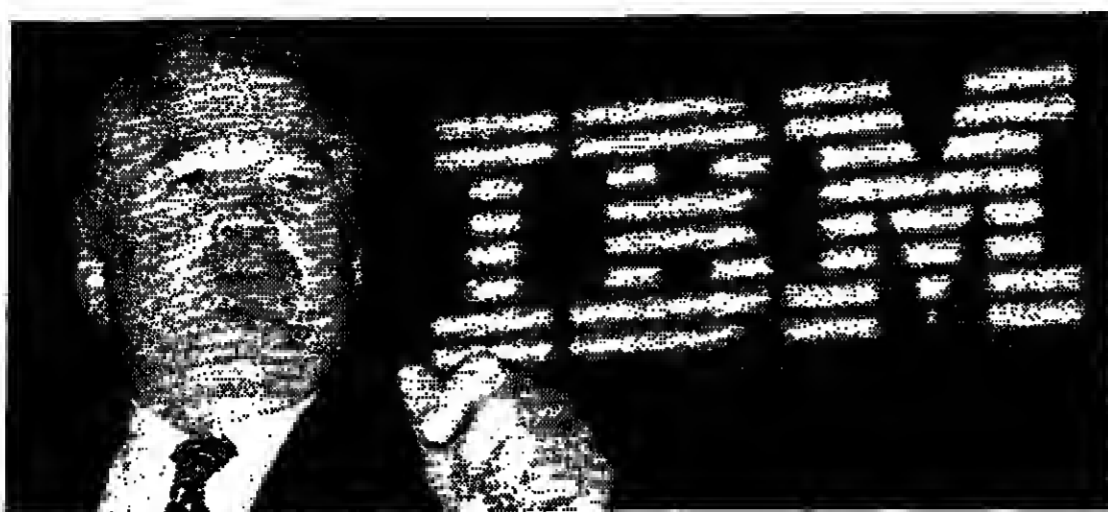
"There's all the technology... that they need in this company. A lot of it gets insulated and isolated from the customers' needs, and finding a way to bring those together is going to be a major challenge and opportunity."

However, in spite of his remarks, industry rumours persist that several of the other candidates on IBM's short-list, who did come from a computer industry background, may have turned the company down before it began serious negotiations with Mr Gerstner.

Whatever the case, controversy seems certain to rumble on for months between those in the computer industry who think IBM's problems can be fixed by a well-qualified general manager like Mr Gerstner, and those who believe it is extremely hard for someone without a computer background to make the hard choices facing IBM on technology strategy.

The computer industry is changing at phenomenal speed, with shortening product cycles.

The technology issue apart, the other 10 items on the IBM wish-list are also interesting for the light they shed on the company's perception of its own weaknesses and the qualities desirable in a leader of a



Lou Gerstner: chosen by IBM after the most closely watched executive hunt in American business history

It takes a lot to be a superstar

Martin Dickson considers the ambitious wish-list drawn up by IBM in its hunt for a chief executive

global business in the 1990s.

Customer orientation is prominent on the list, which is hardly surprising, since focusing relentlessly on customer satisfaction lies at the heart of most modern management theories.

But it is much easier to religiously intone this piece of jargon than it is to execute it. IBM itself has for years now been expressing a determination to get closer to the customer, but without much success.

"This company," says Mr Burke, "used to be the best there was at... satisfying customer needs. Its still pretty good in a lot of areas, but it's got to be a lot better." Mr Gerstner, as a former IBM customer himself, may bring a new perspective to the problem.

IBM's failure to anticipate market trends sufficiently quickly prompted Mr Akers to reorganise the business last year into more autonomous units, which might react more nimbly to customer needs. Mr Gerstner, who has a history of decentralisation, seems likely to accelerate the trend.

International experience. This is clearly a vital quality for the leader of such a large, multinational business such as IBM, particularly as global markets become more and more interconnected.

Mr Gerstner has not lived abroad

in senior management positions, but he has had plenty of international experience. As president of American Express he ran a business which is about as omnipresent around the world as IBM.

Decisive analytical ability, creative visionary, effective and strategic thinker. These three qualities may seem basic to success in any business but they seem to have been in short supply at IBM as it has watched a relentless decline in the mainframe market on which it built its computer fortunes. IBM has been unable to articulate a

Eleven qualities for an IBM chief executive

- ☐ High tech experience
- ☐ Customer orientation
- ☐ International experience
- ☐ Analytical ability
- ☐ Creative visionary
- ☐ Strategic thinker
- ☐ Unusual leader with immediate credibility
- ☐ Record of success as a chief executive
- ☐ Inspires and motivates executive teams
- ☐ Makes change happen

clear new technological vision for itself and execute a strategy built around this.

Mr Gerstner comes to the company with a strong reputation for analysis and strategic thinking, but he may find it hard to articulate a creative vision in a high tech industry which is new to him.

Unusual leader with immediate credibility and record of business success as a chief executive. These two qualities suggest a need to appoint an individual with the record to reassure both the financial markets and IBM's staff that the group is now in strong management hands.

Mr Gerstner is generally well regarded on Wall Street. While his record at R.J.R. is far from perfect - good on financial engineering, mixed at market share and profits growth - American Express enjoyed good growth under his presidency.

He is, however, virtually unknown in the computer industry and to most of IBM's employees, whose trust he acknowledges he will have to earn.

Inspires and motivates executive teams. This is an obvious quality for a business leader, but it may have been in short supply at IBM, with its layers of encrusted bureaucracy. Mr Gerstner has a good reputation for motivating his executives

- both by exhortation and financial rewards. His success at IBM will depend in no small measure on the team he selects to advise him.

Mr Gerstner also talks to people at all levels of a company. IBM employees often complain about the remoteness of the Armonk clique of senior management at the company's New York state headquarters. The board's wish-list seems to lay no particular emphasis on one of the more popular ideas in management thinking - that of 'empowering' the workforce, devolving responsibility to workers right down the line and tapping them for their ideas on how a business should be run. One of the most forceful exponents of the theory is General Electric, which is often held up against IBM as an example of how a huge, diverse and technologically complex global business can stay quick on its feet.

Making change happen; skilled at managing change; strong preference for experience and proven effectiveness in major turnarounds or restructuring situations requiring a cultural change.

This group of characteristics reflects the increasingly popular idea that the best way to shake-up the entrenched culture of a business may often be to bring in a radical 'change agent' from outside.

A prime example is General Motors, the US car group which has been brought low by many of the same problems as IBM - in particular, bureaucracy and complacency bred by too much past success.

Probably the most powerful single agent of cultural change at GM North America over the past year has been Mr J. Ignacio Lopez de Arriortua, an idiosyncratic, Spanish parts purchasing manager brought to Detroit from GM's European operations.

He infuriated the supply industry by demanding big price cuts and lecturing companies (including GM subsidiaries) on ways to improve their manufacturing methods. Volkswagen, the west German car company, has just hired Mr Lopez to create a similar upheaval there.

The hard-driving Mr Gerstner has plenty of experience as a change agent, but his record is not without flaws. His task at flabby R.J.R. when he took over the helm four years ago, was to financially restructure the heavily-indebted business, slash its fat and grow the business. He achieved the first two, but R.J.R. still has a host of problems, with its foods business growing slowly and a loss of market share in tobacco.

Still, only a handful of chief executives around the world would stand a chance of qualifying for the IBM wish-list. And if the phrase 'infallibility essential' was added to the list, the number would immediately drop to zero.

When it comes to the crunch

Christina Lamb on moves to reduce road accidents in Brazil

Anyone who has experienced Brazilian roads and survived can appreciate why the country holds the world record for traffic accidents. Driving licences are more often bought than earned. The results are predictably gruesome - 55,000 deaths per year - as many as if a Boeing 737 dropped out of the sky every day.

This daily carnage is also a costly headache for Brazilian industrialists who rely heavily on road freight to cover the country's continental proportions and few of whom have insurance because of its extortionate cost. Omar Carneiro Cunha, president of Shell Brazil, says: "We have 3,300 trucks and cars driving millions of miles on some of the most hazardous roads in the world, so the risks are enormous."

As many Brazilian executives are discovering, road accidents form a large component of business costs.

Yearly losses through traffic accidents are estimated at \$1.5bn (\$1bn) and rising. Moreover, although the state of Brazilian roads is appalling after a decade of no investment, government statistics show 85 per cent of traffic accidents are through driver fault and thus avoidable.

An increasing number of companies is consequently including as an essential part of restructuring, "defensive driving programmes" for truck drivers, (both in-house and contracted), salesforce and personnel in general with spectacular results.

"The pay-offs are tremendous," says Cunha, pointing out that Shell has halved the number of avoidable fatalities per 100m km driven since launching a road safety programme in 1987.

The strategy is simple and costs little. At Shell, a safety department was set up and consultants brought in to develop a short training course. Tarcisio Mosci, who runs the programme, explains: "However good your hardware, there is a number of accidents caused by software so rather than focusing on the lorries we focused on people." A specially

produced video shows drivers the normal daily chaos on a Brazilian highway in graphic detail, enabling them to recognise all the errors they themselves make.

"Monitor drivers" were appointed, each responsible for 50 motorists. A list of 30 points was compiled to be checked before setting off, and all drivers underwent eye-tests. Quality groups were created for drivers and Shell representatives to exchange ideas, involving senior executives to demonstrate the importance of the scheme. More than half the trucking companies contracted by Shell were sacked because they did not come up to scratch.

Some 800 drivers per year pass through the course, which has cut the number of avoidable fatalities from 15.6 per 100m km driven in 1987 to 7.8 by 1991. To improve on this, Mosci is setting up a programme focusing on speed control and based at regional centres, aiming to reduce the figure by a further 50 per cent by the end of next year.

The reduction in costs is considerable, given that Mosci estimates that even under the improved figures, Shell and its contracted companies spent \$10m on accident costs last year. Moreover, he adds: "When you can control risk in a situation as adverse as Brazil's traffic climate, then you have good management in general."

A similar programme has been under way since 1990 at Hering Textile, Brazil's leading textiles manufacturer, reducing losses through accidents by more than half to \$50,126 a year.

Oswaldo Lopes, risk manager for Hering, the Hering Group's in-house insurers, which developed an eight-hour programme that more than 2,000 employees have attended, explains: "The problem in Brazil, aside from the dreadful roads, is that most drivers have not been taught."

But both Lopes and Mosci admit that there is a limit to how much they can achieve in reducing accident costs without a national campaign to improve road safety awareness among Brazil's 15m motorists.

PEOPLE

Oil men move to top of Lloyd's Register

The traditional hold of shipowners in the running of Lloyd's Register, the world's oldest ship classification society, has been broken after more than 200 years.

Patrick O'Ferrall (right), 59, the new chairman, and Tim Jones, 48, the deputy chairman, both hail from the oil industry. O'Ferrall joined the register in January 1991 after 32 years in the oil industry and has been acting chairman since the death of Sir Roderick MacLeod, a former managing director of Ben Line, in January. Jones, who has spent 23 years with BP, joined in February.

Although O'Ferrall says that it will be "business as usual", the appointment of two oil industry men with substantial international expertise suggests that Lloyd's Register, like the rest of the maritime industry, is being forced to adapt to increasingly competitive conditions.



The decline in the profitability of the shipping industry and competition from rival ship classification societies has made life difficult for Lloyd's, which is committed to maintaining high technical standards of design. "The days when a ship's captain saluted the Lloyd's surveyor at the top of the gang-plank are long since gone," one master mariner said yesterday. Cost-conscious shipping companies are much

more likely to question the surveyor's judgment or threaten to shift their fleet to another classification society.

Lloyd's, a non-profit making organisation with 3,700 staff and more than 250 offices worldwide, is still the biggest in the world - classifying more than 8,500 vessels, or around 90m gross tonnage. However, its percentage of the world fleet has been slipping and it has been diversifying into other areas.

O'Ferrall started with Iraq Petroleum in 1958 and joined Total CFP in 1974; he was responsible for co-ordinating the \$1.5bn Alwyn North project. Tim Jones, a former director of BP Oil Europe, has also had considerable experience of large-scale project management.

Although Lloyd's normal retirement age is 62, O'Ferrall says that he will serve a five-year term until June 1998.

Fine balance at NHS Trust

The allocation of top jobs at Guy's and St Thomas' hospitals, which are combining to form the biggest National Health Service trust in London, shows a fine balance between the two ancient institutions. This follows the appointment earlier this month of Tim Matthews, St Thomas' chief executive, to head the new organisation.

Michael Maisey, consultant in nuclear medicine at Guy's, and Tony Young, consultant surgeon and director of surgery at St Thomas', will jointly hold the post of medical director on the new board.

John Pelly, finance director of St Thomas', will be the new finance director. He worked at St and Bank Xerox before joining the public sector.

The post of project director goes to Karen Caines, currently general manager of Guy's. Before taking up the Guy's job in 1991, she headed the Department of Health implementation unit responsible for introducing the NHS reforms. Before that Caines was deputy head of the 10 Downing Street efficiency unit where she was co-author of proposals leading to the establishment of Next Steps agencies, delivering services at arms-length from government.

Gabriel Scally, director of public health in Belfast, has been appointed to a similar position with South East Thames regional health authority, one of the four regions covering London and the home counties.

Finance moves

The integration of the Midland and Hongkong Bank investment banking businesses looks likely to be accelerated following the news of a new chairman for Samuel Montagu.

Bernard Asher has been appointed to the board and will take over as chairman on April 9, succeeding Sir Michael Palister, the 70-year-old former permanent secretary at the Foreign Office who has chaired Montagu since 1984.

Asher, who started out running Hongkong Bank's Wardley investment banking business, has already pushed through mergers between some parts of Wardley with James Capel, the UK-based broker which he has also chaired for



the past two years. Samuel Montagu remains, legally, a subsidiary of Midland, but in management terms now falls squarely within the HSBC group's investment banking operation. Sir Michael is to remain on the board as vice chairman.

Richard Jewitt, Alan Lynch and Gordon Williamson become northern region directors of BARCLAYS MERCHANTILE BUSINESS FINANCE.

Shanti Sen has been appointed a director of BZW Property Advisory Group; she moves from SG Warburg.

John Ellis, formerly md of Crown Unit Trust Services, has been appointed finance and administration director of NEW DIRECTION FINANCE and NDF ADMINISTRATION.

Isobel Hunter and Harry Morgan have been appointed directors of ADAM & COMPANY INVESTMENT MANAGEMENT. Ross Andrews has been appointed director of ALLIED PROVINCIAL SERVICES.

McClean: 'I just love newspapers'

Richard McClean, who is due to become chief executive of the International Herald Tribune in July, had been planning to leave the newspaper industry this summer.

The deputy chief executive of the Financial Times, who has worked at the paper for 38 years, had decided to retire from the business, accept a number of non-executive directorships and take on something entirely new.

But when he was approached by the co-chairman of the international newspaper - Katherine Graham of the Washington Post and Arthur Ochs Sulzberger - of the New York Times the temptation was too great.

"I just love newspapers. That's the problem," says



McClean, 55, who joined the FT straight from school selling advertising from the paper's Birmingham office. Apart from two years in the Welsh Guards, he has worked on the paper ever since. He will succeed Lee Hueb-

ner, who has been publisher of the IHT since June 1979, and announced his intention to leave last September.

McClean was involved in the decision to turn the FT into an international newspaper with overseas printing sites. He believes that the process should continue; the IHT, he points out, is probably the most widely available international newspaper. The owners of the IHT, the New York Times and the Washington Post, he says, are "outstanding publishers with extensive financial resources and a strong commitment to high-quality publications". And as the deputy chief executive of the FT, newspapers at the top end of the business are something he understands.

CONSTRUCTION CONTRACTS

£28m work for Mowlem



An artist's impression of the proposed upgrading of Manchester Crown Courts in Minshull Street

MOWLEM NORTHERN has won more than £28m worth of new work in the north of England.

Mowlem's Manchester office has won the first phase of a £13.5m project to extend and upgrade Manchester Crown Courts for The Lord Chancellor's Office, a £1.1m contract to build Coppice Junior School, Oldham, for Oldham Metropolitan Borough Council and a £592,000 contract to build a Co-op store at Cheadle, south Manchester.

The North West Regional Health Authority has awarded

a contract worth nearly £11m for new teaching and medical blocks at Hope Hospital, Salford.

The project consists of two linked, three-storey medical and patient accommodation blocks and a two-storey university teaching building.

Trans West African Highway scheme

Environmental and angling engineering management consultant WALLACE EVANS has been awarded two contracts in Sierra Leone and China with a total construction value of £22m.

The Government of Sierra Leone has appointed Wallace Evans for the £16m improvement of a 120 km section of the Freetown to Conakry highway - the principal link between Guinea and Sierra Leone and gateway to the economically vital port of Freetown.

The road is part of the strategically important Trans West African Highway that runs from Morocco in the north to

Nigeria in the south. The project includes the design for the rehabilitation of the 30km section between Maslaka and Roghere and the design of a new road between Pamelap and the Guinea/Sierra Leone border and Farnoreah in Guinea.

Tender documentation for 74 km of new road between Roghere and Pamelap, the design of which was completed in December 1992 by Wallace Evans under an earlier commission, is also included in the EC-funded study.

The superstructure for a 36.5m cable making factory in China is to be designed by the

Wallace Evans firm. Construction work is due to start shortly on the 200,000 sq ft building, located 10 miles from Beijing. The project is a joint venture between the Chinese government and a South Korean cable and wire manufacturing company.

Wallace Evans has designed the single-storey steel superstructure to withstand earthquakes. Staff undertook a detailed study of Chinese regulations, which took account of the climatic regional variations, followed by complex computer calculations to assess the stress the building would need to withstand.

Office development project in York

WIMPEY CONSTRUCTION's northern region has been awarded a £13m contract to design and build an office development for the Foss Development Corporation in York.

Known as The King's Pool, the project is situated on a three acre site close to the city centre, fronting the inner ring road and the River Foss.

When complete in autumn next year, The King's Pool will house 600 administration staff from the Ministry of Agriculture Fisheries and Food (MAFF). The civil servants will provide support services to MAFF's central science laboratory in Sand Hutton which is currently under construction. The department is creating 300 local jobs and relocating

300 other staff from its offices in the south east of England to York.

Wimpey's work involves the construction of 140,000 sq ft of office accommodation in three buildings and a three-storey car park. Wimpey will also fit out the offices for MAFF.

Project manager for the scheme is Bishoptorp Estates.

Bucknall Austin active

BUCKNALL AUSTIN has recently landed four German project management or quantity surveying commissions on projects collectively valued at more than £60m.

At Bucknall Austin's German subsidiary, Day & Grig GmbH, new commissions include:

● A new multi-level shopping centre in a converted listed building in Dresden valued at about DM40m (£16.5m) where Day & Grig GmbH is sole consultant covering project management, costing and design co-ordination.

● A 200,000 sq ft district shopping centre outside Cologne where Day & Grig GmbH is providing project management and quantity surveying services.

● A 40,000 sq ft speculative office and apartment building in a prime location in Berlin is scheduled to commence in May.

● A DM20m (£8.3m) office and apartment scheme in Frankfurt for which the firm has been appointed as project manager.

Water treatment

TRAFALGAR HOUSE WATER PROJECTS companies, Trafalgar House Construction and John Brown Engineering, have been awarded an £11.5m contract to replace three water treatment plants for the Strathclyde Regional Council. They are in the south Glasgow area, at South Moorhouse, Neilston and Picketlaw, and will be capable respectively of supplying 7m, 4.1m and 10.4m litres daily.

RAF headquarters

TILBURY DOUGLAS CONSTRUCTION has won orders worth £20m. The Ministry of Defence has appointed Tilbury Douglas as project manager for a 25m headquarters building at RAF High Wycombe. The building will provide office facilities for defence staff, together with auditorium and conference rooms with simultaneous translation facilities. The London Borough of Islington has placed a £4m order for general improvement works at the Packington Estate.

The new European Bank in London has a building to live up to, writes Colin Amery

The spirit of eastern promise

Look East seems to be the motto of the moment. The inauguration last week of the headquarters of the European Bank of Reconstruction and Development, in one of the recently completed office buildings of Broadgate, confirmed the success of that development which has so effectively extended the City of London to the east of Liverpool Street. Can it be a simple coincidence that the approach to the entrance of the bank on Exchange Square from the station is an elegant route called "Great Eastern Walk"? The role of the bank is to foster development and democracy in the newly liberated countries of eastern and central Europe, and as Mr Jacques Attali, the inspiring president of the Bank, said at the inauguration, "Europe is awakening to the east." In the same week Michael Howard, secretary of state for the environment, announced proposals for the development of an East Thames Corridor along the marshy and polluted banks of the Thames from Beckton to Sharness. The question of how best to awaken London to the east is almost as difficult a question as how to achieve the rejuvenation of eastern Europe.

The importance of the European Bank and the wonder of it being in the City of London was underlined in a very positive speech by HRH The Prince of Wales when he inaugurated the new headquarters. He praised the decision of the bank to establish a new European Cultural Fund and took the opportunity to announce his own joint initiative with President Havel of the Czech Republic to create a Prague Heritage Fund for the restoration of some of the buildings, monuments and gardens of that remarkable city.

All this noble rhetoric seemed well grounded because it was issued forth in the fine new halls of what Mr Attali called, "the first pan-European institution of the post-cold war era". If the actual architecture of the interiors of the new bank is anything to go by, the new Europe promises to be both cultural



Inventive interior: columns are clad in rough metal casings

ally stimulating and incredibly chic. The architects for the interior of the building are an Anglo-French design team, a partnership of Berthet et Pochy and Sidell Gibson. They have achieved the remarkable feat of fitting out in record time a building designed by the American architects Skidmore Owings Merrill for developer Mr Stuart Lipson (in his Rossmore Stanhope days). Broadgate development. What struck me as particularly exciting was the way they have completely transformed the whole idea of a banking environment. Their brief from the president was to give a visual rendering of the diverse nature of this international institution while making it possible for the open teamwork of the operation to function efficiently.

The result is no cold and clinical routine set of offices but an open and sparkling world with inventive spatial planning and an atmosphere that is visually stimulating. The tone is set by the entrance hall - a great mirrored space linking the Bishopsgate and Exchange Square entrances. The ceiling is mirrored to reflect the marble floor and the brown slabs of Carrara marble that have been placed between the lifts. There are plans for a video wall and a piece of the Berlin Wall to be at the Exchange Square entrance. The cafe at the

entrance level with an exhibition area will be open to the public. (Its first big exhibition will be a display of religious masterpieces from the State Museum of Sacred Art in St Petersburg, opening in April.) A large auditorium will house conferences and lectures and will also be the setting for a series of cultural events sponsored by the bank. A line of flags of member countries leads to the dramatic false perspective on the way to the staff restaurant.

The 12 floors of offices have been planned to relate to one another both horizontally and vertically. New internal staircases have been installed to encourage easy communication between the departments that work together to avoid dependence upon the well used lifts. The smaller top three floors house the president's office, the boardroom and the executive dining and meeting rooms. Many of these have remarkable views over Spitalfields and east London. Looking down on the immediate neighbourhood of the former Spitalfields market, which is dominated by the magnificent tower and spire of Hawksmoor's Christ Church, it is hard to resist the idea that this should become the newest residential area of

the City instead of another sea of offices. Residential developers - look east.

The main office floors have a rather spectacular sense of space - and beautiful light sycamore furniture from the British firm of Gordon Russell. Meeting rooms are circular with red doors all named after the rivers of Europe. Tea and coffee areas are screened by glass panels etched with entertaining designs. There are some enjoyable jokes in the bizarre conical and pyramid signs which are engraved in reverse and look Cyrillic until you read them the right way round in the mirrored ceiling. When columns appear in large open spaces they have been dramatically clad in very tactile rough metal casings.

The top floors have a restful and simple quality - the emphasis here is on the quality of the materials and the display of some of the bank's art collection. The dining rooms bear the names of European composers and some will display memorabilia associated with the composers. Semi-precious stones from the Urals, artefacts from eastern Europe, paintings and sculptures combine to give the new offices something of an international intellectual content. The Italian government have given a series of Pisanese engravings, the developers have given the brilliant lion sculpture by Jane Ackroyd. A giant fresco by a Russian, Polish and French group of artists will shortly be unveiled, and a sculpture by Cesar has already been lent by the artist. The high quality and the originality of the commissioned art works have already given this new building a unique and distinguished character.

The European Bank is indeed welcome in London as a crucial and inventive catalyst for the new Europe. If the creative atmosphere of culture and commerce, which is so evident in the new headquarters, is indicative of its approach to the rejuvenation of formerly communist Europe then the future in the east will indeed be bright.



A bronze statue by Fernando Botero marks the approach to the European Bank

Theatre Blood Wedding

Blood Wedding (1933) is the earliest of the "Spanish Earth" trilogy by Federico García Lorca (1898-1936), preceding *Yerma* (1934) and *The House of Bernarda Alba* (1935). Its violence is wedded to a surrealism that connects Lorca and his other work to the wider influences of 1920s Madrid and the specific influences of his friends Salvador Dalí and Luis Buñuel.

The Lyric Hamamersmith (with Odyssey Theatre) has now staged a fine, powerful and unsettling production of the play by balancing its tragedy and surrealism. Lorca wrote *Blood Wedding* from a 1926 newspaper report of a Granadan bride who eloped with her lover on the wedding night. Her family pursued the groom and the lover killed each other. Behind the violence is the old family feud, and above it surreal premonitions of blood, death, time, García Lorca used the same resonant themes in *Chronicle of a Death Foretold*, set in a small Colombian pueblo.

The strength of the Odyssey Theatre's *Blood Wedding* comes from its collaboration with Cumbre Flamenco. The music and dance fill out the concentrated action on the large stage at the Lyric. The flamenco brings a sense of intensity as well as authentic



Powerful and unsettling: Rosalind Bennett and Patrick O'Kane in Blood Wedding

"cante jondo" (deep song), sadness and joy in a poised hand or a turned head. Ian Davies' fine guitar accompaniment creates the atmosphere, conjuring a hot July in Granada from a cold March in Hamamersmith. The play's surreal second part, where Death and the Moon preside over the bride and her lover, is beautifully handled by Helen Turner's design and Peter Mumford's lighting. The naturalistic *hacienda* interior of the opening gives way to a vertiginous effect with columns of light and falling sand, as if the stage itself was dropping away from gravity and reality towards

the strange henediction and coda. Nigel Jamieson's direction lets each of Lorca's tense, unfinished scenes engender the next, so the play develops rhythm and pace. The balance of a Lorca scene can change quickly, so pared down is the writing. He wrote strong parts for women, and the actors here respond well. Frances Tomelty (substituting at short notice for Sofia Kalinetska) as the groom's mother is a stern, terse woman in a hard world, the crack in the strong voice, with "My tears will come when I am alone." Opposite her, Rosario Serrano as the Mother-in-Law

moves easily and expertly between song, dance and speech, and Rosalind Bennett is a young bride in black, a sexy lover, and a desperate fugitive. However, the patchy translation, misses Lorca's visceral expression. "Aren't you happy with so many riches heaped upon you?" looks mannered alongside the bleak picture of marriage elsewhere: "A man, some children and a wall two feet thick. Nothing more."

Andrew St George
Lyric Theatre, Hamamersmith until April 17

When the Wigmore Hall advertised a recital of Russian two-piano music by Dmitri Alexeev and Nikolai Demidenko for last Saturday, some of their fans may have felt anticipatory thrills. But cynical old hands like me had their doubts. Part of what makes a successful virtuoso is a single-minded determination to catch the ear, such performers usually collaborate more easily with other instruments than with their own kind. Besides, Alexeev and Demidenko would seem less than a natural match. Where intense feeling and spontaneity characterise the one, the other cultivates perfection with forethought. Yet in the event, their differ-

Concert/Andrew Clements Stravinsky and Janáček

instalment of "Towards the Millennium" brought the two works to the Festival Hall with the City of Birmingham Symphony Orchestra and its Chorus, conducted by Simon Rattle. Both were intense, vivid performances - representing the very best of Rattle one is tempted to say - with the Chorus, singing the mass from memory, wonderfully prepared and ready to respond crisply to every nuance. If anything it was the Stravinsky that emerged the more freshly minted; Rattle lifted and graded the textures of the first movement with pinpoint accuracy, untangled the fugal knots of the second, and gave an

Apollonian elegance to the repetitions of the third. The exuberance of the Janáček was captured in a very different way, with saturated orchestral splendour - bold, abrasive brass, high tensile strings, explosive organ solos from Thomas Trotter - and a willingness to play for high expressive stakes. Moments of over-exuberance sometimes threatened to overwhelm the soloists, but Faye Robinson's soprano, a quiver with fervour, and John Mitchinson's stentorian tenor usually survived, while the textures generally gave the mezzo (Amanda Gunson) and bass (Stephen Richardson) an easier ride.

The orchestra had beguiled with Schoenberg's Variations for Orchestra Op. 31. Rattle steered a lucid course through its structural intricacies, making perfect, elegant sense of the variations themselves and bringing a real sense of mounting drama to the finale, as one development section collapses in on the next. Every particle of the instrumental play was alive, sharp etched; it was just the gripping prelude, though, to an evening that was outstanding in every respect.

Royal Festival Hall; final London concert tomorrow and Thursday

Recital/David Murray Russian piano duo

ences were all but submerged in a shared passion for their native repertoire. Though the occasion for the concert was the 50th anniversary of Rakhmaninov's death, there is not quite enough two-piano music by that composer, fortunately, to fill a programme. That made a good excuse for jettisoning his Suite no. 1 and adding some unfamiliar Medtner, and a chain of Schubert waltzes as arranged by Prokofiev. But Rakhmaninov carried the evening after

all, and a tingling account of the brilliant Second Suite was certainly the crown of it. His early Russian Rhapsody (1891) was at least interesting for its debt to Balakirev and Borodin. St Petersburg nationalists whose echoes were more often suppressed in Muscovite products such as Rakhmaninov's or Scriabin's. In the two-piano version of the Symphonic Dances (1940, very late), some quirks in the harmony seemed less plausible than in their opulent orchestral dis-

guise. Still, with playing of such devoted expertise one could only sit back and enjoy. Here and there, when Demidenko had an "accompanying" role his awesome authority made him rather too prominent, and in some *precisissimo* digital passages Alexeev audibly scrambled. No other quibbles but to remark that biological piano duos - the Kontarskys, the Contiguglias, the sisters Labèque and Pekinel - have set a standard of eerie unanimity that few other pairs can reach. Here, at phrase-ends and paragraph closes, Alexeev and Demidenko were regularly a fraction of a second apart; they just are different musical animals.

INTERNATIONAL ARTS GUIDE

BERLIN

OPERA/DANCE *Der Rosenkavalier* The main event this week is a revival of Carmen on Wed starting Agnes Baltsa and Neil Shicoff (also April 5, 12, 18). The repertoire also includes I trovatore tomorrow, Valery Panov's production of Prokofiev's ballet Cinderella on Thurs, a ballet mixed bill with choreographies by Michael Clark, Stephen Petronio and Bill T. Jones on Fri and Madama Butterfly on Sat. Peter Schaeffer's production of Giselle receives two performances on Sun (341 8249). Staatsoper unter den Linden. Antonio Pappano conducts the first night of Gluck's *Chazetia* new production of I Capuleti a Montecchi on Fri, with a cast led by Lella Cubelli, Iris Vermillion and Vicente Ombueno (repeated April 5, 7, 11, 14). Other events this week include the Russian production of Sleeping Beauty tomorrow and Thurs, Aida on Wed and Sat with Mara Zampieri and Giorgio Zancanaro, and Maurice Béjart's new ballet production on Sun. April

8. Thomas Hampson song recital (200 4762). *Kornische Oper* Tonight: Le nozze di Figaro. Tomorrow, Sun, next Mon: new production of Fleming's *Plindie* ballet *The Three Musketeers*. Wed: *Bartered Bride*. Thurs: *Così fan tutte*. Fri: *Gay and Pagan* (229 2555). **CONCERTS** Schauspielhaus Tonight: Heinz Rögner conducts Berlin Radio Orchestra in Mahler's Seventh Symphony. Also tonight (Kammermusiksaal): Kathleen Battle song recital. Wed: Daniel Nazareth conducts MDR Symphony Orchestra in works by Beethoven and Bruckner, with piano soloist Justus Frantz. Sat, Sun, next Mon: Yehudi Menuhin conducts Berlin Symphony Orchestra in works by Beethoven and Bruckner, with piano soloist Christian Zacharias (2090 2156). Philharmonie Tonight: Hiroshi Wakasugi conducts Berlin Radio Symphony Orchestra in Messiaen's Turangalila Symphony. Sat: Mitsuko Maeda is cello soloist in a Schumann concert by RIAS Youth Orchestra. Sun: Dvorak's *Sisak* (2548 8232). **THEATRE** Alfred Kirchner directs Peter Turrini's new play *Alpenhühner* at Schlosspark Theater (783 1515). Schiller Theater's repertoire includes Katharina Thalbach's new all-male production of Shakespeare's *As You Like It* (812 6505). Deutsches Theater has *The Iceman Cometh*. Eugene O'Neill's majestic play about pipe dreams gone sour, in a new production directed by Rolf Winkelgründ (2844 1225). DT-Kammerspiele has the first German production of Howard Brenton's Berlin Berlin (2844 1225).

Ariel Dorfman's moral thriller *Death and the Maiden* opens at Renaissance Theater on Sat, directed by Gerhard Klingenberg (312 4202). The world premiere of a new musical about Marlene Dietrich opens at Theater am Kurfürstendamm on April 7 (251 0144). Tickets and information for theatre, revues, concerts and nightclub shows available from City Center Theater and Konzertkasse, Kurfürstendamm 16 (tel 882 6533 fax 882 6567) and Theaterkasse im Europa-Center (tel 251 7051 fax 261 9288).

NEW YORK

THEATRE ● *Candide*: Shaw's play directed by Gloria Muzio. Just opened (Roundabout, Broadway at 45th St, 869 3400). ● *Fool Moon*: Bill Irwin and David Shiner are the inspired clowns in a much-admired show (Richard Rodgers, 226 West 46th St, 221 1211). ● *A Couple of Beggars*: actors Frank and Malachi McCourt reminisce about their Irish childhood (Irish Arts Center, 553 West 51st St, 757 3318). ● *Oleanna*: David Mamet's powerful new play which stars Kiefer Sutherland, 126 Second Ave at 8th St, 307 4100. ● *The Sisters Rosensweig*: Wendy Wasserstein's new play about the reunion in London of three American Jewish sisters (Ethel Barrymore, 243 West 47th St, 239 6200). ● *Forbidden Broadway* 1993: Gerard Alessandrini's latest collection of Broadway parodies

is as funny as its predecessors (Theatre East, 211 East 60th St, 838 9090). ● *Someone Who'll Watch Over Me*: Alec McCowen as one of three Beirut hostages in Frank McGuinness' moving and humorous play (Booth, 222 West 48th St, 239 6200). **OPERA/DANCE** Metropolitan Opera Tonight and Fri: Lucia di Lammermoor with Sumi Jo and Alfredo Kraus. Tomorrow: James Levine conducts Die Walküre with Gwyneth Jones, Mechtild Geesendorf, Gary Lakes and James Morris. Wed and Sat: La traviata with Tiziana Fabbricini and Neil Rosenshein (392 6000). State Theater San Francisco Ballet begins a week-long residency tomorrow with Heidi Tomasson's production of Swan Lake, followed by three mixed-repertoire programmes including Binyamin's *The Sons of Horus*, Forsythe's *In the Middle* and Balanchine's *Four Seasons*. New York City Ballet's Spring season opens on April 22 (870 5570). **CONCERTS** Tomorrow's programme at Carnegie Hall is Bach's B minor Mass. Wed: Australian Chamber Orchestra with guitar soloist John Williams. Fri: Hermann Baumann horn recital. Sun: Jesse Norman song recital (247 7800). Sun afternoon at Avery Fisher Hall: Yehudi Menuhin piano recital. The New York Philharmonic is on tour in Europe (875 5030). **JAZZ/CABARET** Blue Note Tomorrow till Sun: Maynard Ferguson. Next week: Tony Williams Quintet. Showtimes 21.00 and 23.30. Dining (131 West 3rd St, 475 8592).

Ballroom Dave Frishberg opens a residency tomorrow. Restaurant: tapes bar (253 West 28th St, 244 3005). Algonquin Hotel Westia Whitfield begins a month-long run tomorrow in the Oak Room. Dining (59 West 48th St, 840 6807). Micky's Pub Micky Rooney is currently making his cabaret debut here (211 East 55th St, 758 2272).

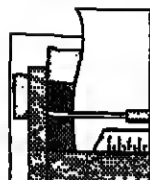
PARIS

OPERA/DANCE Châtelet Tonight: final performance of Berenice/Chereau production of Wozzeck (4028 2840). Palais Garnier Tomorrow: final performance of *Capriccio* starring Felicity Lott. Next week: *Compagnie Préfocaj* (4742 5371). Opéra Bastille Wed: Benvenuto Cellini with Chris Merritt and Diana Montague. Fri: Faust with Francisco Araiza, Barag Tumanian and Nelly Mirikolli. Next Mon: revival of Bob Wilson's production of Die Zauberflöte (4001 1616). Théâtre de la Ville Compagnie Christina Bastin presents two Bastin choreographies, daily from tomorrow till Sat (4274 2277). **CONCERTS** Théâtre des Champs-Élysées Tonight: Kurt Masur conducts New York Philharmonic Orchestra. Tomorrow: Sándor Végh conducts Camerata Academica in symphonies by Mozart and Schubert. Thurs: Ivan Fischer conducts Orchestre National de France in works by Prokofiev and Bartok, with piano soloist David Lively (4720 3537). Châtelet Wed lunchtime: Elena Bashkova piano recital. Wed evening: Daniel Barenboim plays

Schubert. Thurs: Fine Arts Quartet. Fri: Jordi Savall plays Spanish early music. Sun afternoon: Ensemble InterContemporain plays Bartok and Berg. Next Mon: William Christie directs Les Arts Florissants in motets by Guillaume Bouzignac (4028 2840). **JAZZ/CABARET** Lionel Hampton Jazz Club Ann Peebles, voice of St Louis soul music, daily till Sat. Music from 22.30 (Hotel Meridien Paris Etoile, 61 Boulevard Gouvion St Cyr, 4058 3042). Châtelet Auditorium Tomorrow: Hank Jones Duo. Wed: Stanley Cowell Trio (4028 2840). **THEATRE** ● *L'Homme qui*: Peter Brook's latest theatre piece, adapted from the book by Oliver Sacks (*Bouffes du Nord* 4507 3450). ● John Gabriel Borkman: Luc Bondy's latest production (Théâtre national de l'Odéon 4441 3638). ● *Il Campiello* (Fin d'été à la campagne): a Golden bicentenary production of the play he wrote five years before his 1781 Country trilogy. Till May 6 (Théâtre 14, 20 av. Marc Sangnier 4545 4977). **ART FAIR** Salon de Mars: the annual art market at Champ de Mars opens on Wed and runs till next Mon. Held under a vast tent covering 10,000 square metres, it offers an eclectic choice of antiques, contemporary works and primitive art, disregarding the compartmentalisation of the traditional fair (Place Joffre, métro Ecole militaire). A 24-hour recorded telephone guide to Paris entertainments is available in English by dialling 4720 8898.

European Cable and Satellite Business TV (All times are Central European Time) **MONDAY TO THURSDAY** Super Channel: European Business Today 0730; 2230 Monday Super Channel: West of Moscow 1230. Super Channel: Financial Times Reports 0630 Wednesday Super Channel: Financial Times Reports 2130 Thursday Sky News: Financial Times Reports 2030; 0130 Friday Super Channel: European Business Today 0730; 2230 Sky News: Financial Times Reports 0530 Saturday Super Channel: Financial Times Reports 0630 Sky News: West of Moscow 1130; 2230 Sunday Super Channel: West of Moscow 1830 Super Channel: Financial Times Reports 1900 Sky News: West of Moscow 0230; 0530 Sky News: Financial Times Reports 1330; 2030 **Arts Guide** Monday: Berlin, New York and Paris. Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington. Wednesday: France, Germany, Scandinavia. Thursday: Italy, Spain, Athens, London, Prague. Friday: Exhibitions Guide.

The unwritten code of lasting business



PERSONAL VIEW

Why is it that, when data transmission has become instantaneous and cheap, world financial centres are still concentrated in tiny areas of Manhattan and central London? Why is entertainment such a central element in Japanese business culture? Why is it that the way to revive the British motor industry is to shut down most of its traditional plants and re-start on greenfield sites? Why are the most successful parts of Italian industry based on local networks of small, co-operating companies? And how did banks manage to lose quite so much money in the past two decades?

The answers to all these questions are to be found in the different styles of business contracts and relationships that companies employ, and in the ways these depend on history and social environment. Long-term contracts are needed when parties need to make a substantive commitment to the relationship. A company needs to fit out an office to its specific needs; a sub-contractor needs to tool up for a particular component; an effective professional adviser needs to invest in knowing his client. No one will make these commitments on the basis of spot contacts alone.

One possibility is to make a classical contract - a binding agreement which specifies what will happen in every foreseeable contingency. That is how we rent property. But it has disadvantages. Not all contingencies are foreseeable. And there are aspects of a commercial relationship which the courts cannot, or will not, enforce. No contract can effectively prescribe for the full exchange of information or for flexibility in response.

There is a difference between the degree of co-operation which can be enforced by rules and the wholehearted concerted action of two individuals or two companies. It is the difference between a relationship with the local telephone company and the relationship with a marriage partner. We make a classical contract with

the former, we have a relational contract with the other. The relational contract will have a legal form (as the marriage contract does), but (as with the marriage contract) it does not incorporate the essential elements of the relationship. These elements are implicit, and are enforced, not by any legal process, but by the need of the parties to go on doing business together.

Relational contracts are important in business too. They are necessary in areas where information exchange is important and where quick and flexible responses are necessary. That is why they matter in the financial services industry, in fashion businesses and in industries which assemble the products of a wide range of independent companies. They are the key to the competitive advantages of such companies as J.P. Morgan and Casenove, Benetton and Chris-

There are aspects of a commercial relationship which the courts cannot, or will not, enforce

tian Dior, Toyota and Marks and Spencer.

Relational contracts involve risks as well as rewards. Each party is exposed to the risk of opportunistic behaviour by the other and the only protection they have is the reputation of the other and the shared need for a continuing relationship. The ability to make relational contracts effectively depends on the environment in which the company is placed. It is easier to make relational contracts when the relational style is the norm, safer to do it with someone who has made many other relational contracts.

The Japanese business culture is naturally supportive of relational contracting and the familiar pillars of Japanese management systems, with their emphasis on seniority, their practices of lifetime employment and their networks of sub-contractors, are all part of that. The American environment, in which the penalties for opportunistic behaviour are very low and everyone has an attorney at his shoulder,

is naturally hostile to it. Italy is at one European end of this spectrum and Britain at the other. Geographical concentration and linking of social activities with commercial ones is important. Opportunistic behaviour is more costly if it damages your social as well as commercial reputation.

Relational contracting is not all good. The features of Japanese and Italian life, which make these types of business behaviour possible are also reflected in nepotism and political corruption. Life run by unwritten rules can be constraining on talent and inhibiting on innovation.

The US - an individualistic society founded on immigrants who had discarded many traditional values - provides the most innovative technical and commercial environment in the world. It is also the most litigious society, and competitive advantages based on design and style, or on the sustained co-operation of a disciplined labour force, are mostly found elsewhere. There are business areas where relational contracting is appropriate, and others where classical contracting performs better; we need to know which is which.

Yet we may not have a choice. It is easier to move away from relational contracts than towards them. UK banks were ready to discard such contracts with their customers and employees in the pursuit of a more commercial, performance-oriented transactional style of business. They paid a high price, but they cannot now put these relationships together again. Nnr could Longbridge and Cowley substitute the co-operative history of Toyota's plants for their own. For many people relational contracts seem an old-fashioned way of doing business. In reality it is a style of commercial relationship which we discard at our peril.

John Kay

The author is professor of economics of the London Business School. His book, *Foundations of Corporate Success*, has just been published by Oxford University Press, price £19.95



London first: Grand Met's Sir Allen Sheppard, environment secretary Michael Howard, Stephen O'Brien of BIC, and Steven Norris minister for transport in London

Too many bodies spoil the broth

John Willman and Richard Tomkins look at the duplication of effort in promoting London

the brink of paralysis.

Inevitably, Londoners look to neighbouring capitals for comparisons. When they do, they find London scoring badly. Paris, for example, may suffer from worse traffic jams than London, but Londoners can only stand in awe of Paris's commitment to public transport.

Not only is the Metro more frequent and reliable than the Underground, but three cross-city lines have been built since 1987, a fourth is under construction, a fifth is planned, and FF77bn (£8.9bn) is due to be spent as part of an expansion plan spanning the next 20 years.

By comparison, investment in new transport capacity in central London has virtually halted. Road building has long been ruled out as a solution to the capital's transport problems, but little has happened to take its place. The bus fleet is ageing, the Underground system is decaying faster than it is being renewed, and apart from a short stretch of the Jubilee Line, only one new Underground line (the Victoria line) has been built since the first world war.

Central Londoners can only look with envy at examples of what the government can do when it tries. In the Docklands area on the capital's eastern flank, some £3.6bn is being spent on a co-ordinated effort to stimulate regeneration through big improvements in transport infrastructure. And further east, the government is now talking of developing a linear city down the east Thames corridor stretching from Docklands into north Kent. This means further vast sums will need to be spent on roads and railways outside the central area. To many, this looks perverse: a sort of transport equivalent of adding a luxurious new extension to a house whose roof is caving in.

Last year the government sought to counter accusations through big improvements in transport infrastructure. And further east, the government is now talking of developing a linear city down the east Thames corridor stretching from Docklands into north Kent. This means further vast sums will need to be spent on roads and railways outside the central area. To many, this looks perverse: a sort of transport equivalent of adding a luxurious new extension to a house whose roof is caving in.

Investment in new transport capacity in central London has virtually halted

that it had no policies for transport in the centre of the capital by appointing Mr Steven Norris as minister for transport in London.

Mr Norris reels off a list of projects that he says will transform London's public transport: CrossRail, the Jubilee Line extension, Thameslink 2000, the East London Line extension, the Channel tunnel rail link, the Heathrow Express, the Chelsea Hackney line. And he rejects suggestions that Paris does things better. "This idea that everything is better across the Chan-

nel is simply untrue."

The capital itself, however, seems far from convinced. A report published by the Corporation of London, the local authority for the City of London, earlier this month pointed out how the decision-making process on new transport projects was split between a "staggering" number of government departments, quangos, borough joint committees, representative organisations and the London boroughs themselves. Once agreed, the report said, these projects then became subject to the vagaries of the national public expenditure control process.

"There is little evidence that new central government arrangements have yet succeeded where earlier planning and governance systems failed," it concluded.

The creation of private sector bodies such as the London Forum and London First is seen as the way forward by the government. To back its efforts, a cabinet subcommittee on London, chaired by the environment secretary, was created last year to co-ordinate policy.

However, the creation of more bodies to promote the capital looks set to perpetuate the division of effort between disparate, sometimes overlapping and occasionally competing organisations, none of which can claim leadership. Already there has been some

discontent at the City Corporation over the duplication of effort created by the plethora of bodies.

One of London First's projects, for example, is a study of London's economic competitiveness, under a group chaired by Mr Stuart Hampson, chairman of the John Lewis Partnership, the retailer. The corporation is almost halfway through a £1.5m study on the same subject by the London Business School, which is producing a steady stream of papers such as the transport one already published.

Similarly, the corporation cannot be a formal member of the London Forum, since Mr Howard excluded local authorities from membership. Yet the corporation is one of the few bodies in London which can provide substantial funds, staff and other resources for the Forum's work.

Mr Michael Cassidy, chairman of the corporation's policy and resources committee, says that there is a danger that Londoners will be disappointed if the new body cannot launch its plans with an element of punchiness because it has no resources. They will be bringing "little new to the party", he says, except for added profile.

However, such arguments over turf beg the bigger question as to whether it is appropriate for such important strategic planning to be left to private sector organisations without adequate resources.

London First, for example, is backed by some 40 companies, each of which has chipped in £5,000 apiece to fund its work. These sums are paltry in relation to the amounts which would be needed to address London's underlying problems.

This privatisation of London's governance will only work if it opens the Treasury's purse strings. It has yet to be proved that it can.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

A waste of energy

From Dr Andrea Haworth.

Sir, In the FT of March 25 you carried an advertisement for British Gas entitled "If you need to complain it won't be a waste of energy".

The list of 50 general managers established in local offices last year is entirely male (with the possible exception of Laurie and/or Robin). I would like to complain about this - but I feel it would be a waste of energy.

Andrea Haworth, centre for research on organisations, management and technical change, Manchester School of Management, UMIST, PO Box 88, Manchester M60 1QD

Not wanting fool's gold

From Mr Onesimo Alvarez-Moro.

Sir, Here we go again. Not long ago, the west was backing one side in its desire to establish a system which it preferred.

Then it was Mikhail Gorbachev in the Soviet Union, now it is Boris Yeltsin in Russia. When is the west going to stop trying to impose its own system in other lands?

The Russians must be fed up - continuous promises of assistance and nothing forthcoming. Nothing, that is, except meddling in their internal affairs.

Capitalism and democracy will only ever become ingrained if the Russian people themselves are committed and become accustomed to these ways of life voluntarily.

If they look at how capitalism and democracy are functioning in other parts of the world they may not consider worthwhile the hardship which they have to undergo to get theirs.

The west should lead by example not by intervention. Until it does, when the time comes for people to look for bright torches to follow, they will bypass the western fool's gold and prospect elsewhere. Onesimo Alvarez-Moro, Ponce de Leon, 2 2 puerta 6, 28012 Madrid, Spain.

Clear duties and penalties the route to auditor independence

From Mr Derek Ridyard.

Sir, Prem Sikka, Anthony Puxty and Hugh Willmott (Accountancy Column, March 25) add their voices to the popular argument that separation of audit from consultancy work for the same client would ensure auditor independence. Judging by the research carried out by NERA into this subject, I would suggest that their proposals are unworkable. What is more, this policy prescription is not at all the most direct solution to the root of the problem.

When we collected data on audit-consultancy links among the Big Six accounting firms in 1990, we found that the various regulatory obstacles to such links throughout the EC were mostly ignored, avoided or evaded. In Germany (the exam-

ple cited by Sikka et al as having an effective ban on audit-consultancy links) we found that more than 20 per cent of Big Six non-audit income came from audit clients. The corresponding figure was 35 per cent for the UK.

Even supposing audit-consultancy links could be eradicated, the problem of the auditors owing greater financial allegiance to the managers than to the shareholders of the audit client would remain. The audit is a major piece of business in its own right, so audit partners would still have a clear financial incentive to compromise independence if lent on by unscrupulous company managers.

The way to tackle this problem head on is to clarify the duties of the auditor to the

shareholders. Clearer duties, and clearer penalties if these duties were not discharged, would provide an effective financial antidote to the incentive to compromise independence. Certain knowledge that poor audit checks will result in exposure to proper penalties would concentrate the auditor's mind wonderfully.

Shareholders' representatives, and the accounting firms themselves, should take more rapid steps towards this goal if they are to avoid the imposition of costly and ineffectual interference with their freedom to carry on consultancy work. Derek Ridyard, associate director, National Economic Research Associates, 15 Stratford Place, London W1N 9AF

Tax proposals will hit small oil exploration companies while benefiting large producers

From Dr Michael F Ridd.

Sir, Since the chancellor's budget statement your pages have carried the reactions of two of the biggest North Sea oil companies to the proposed changes in the Petroleum Revenue Tax arrangements ("North Sea group may halve exploration after oil tax change", March 24). At the other end of the spectrum is a company like my own, arguably the smallest North Sea oil company and yet one which would be strongly affected if the chancellor's proposals were to be implemented.

Over several rounds of North Sea licensing Croft has built up a portfolio of exploration acreage, committing to the government to carry out certain seismic surveys and drilling. Our plans and commitments had been based on a fiscal regime in which our exploration and appraisal costs could be relieved against our PRT liability from the one producing field we have, Claymore. Under the chancellor's proposals the work we shall have to carry out under those commitments to government will effectively quadruple in cost. And, similarly, any discretionary exploration or appraisal work we might wish to carry out in the

UK will be made that much more costly. Expressed another way, from 1996 when the PRT changes would begin to bite, our North Sea production revenue (and hence the money available for exploration) will halve.

That is how a company largely devoted to exploration and appraisal will be affected. But certain other North Sea oil companies have such large producing interests and pay such large PRT bills that their effective increase in exploration and appraisal costs under the chancellor's proposals will be outweighed by the chancellor's other proposal, to reduce the PRT rate on existing fields from 75 to 50 per cent. Such companies, although few in number, are naturally rejoicing as your March 25 headline points out: "BP defends oil tax from attacks."

Mr John Browne of BP is reported as saying that for too long the taxpayer has subsidised exploration. The reason he is now rejoicing is because the chancellor is proposing that in future the taxpayer will instead foot the bill for BP's increase in North Sea revenue, estimated at up to £140m a year.

Mr Browne is one of the few

North Sea oil company executives to consider exploration levels will not be seriously affected by the proposed changes, reportedly saying that instead it will give exploration a stronger focus and make it more cost-effective. If drilling success rates have declined from 1 in 5 to 1 in 7, as he says, it is not because of inefficient exploration but because with advancing maturity the North Sea is yielding smaller discoveries of which more are falling beneath the threshold of commercial viability. "Stronger focus" is simply a euphemism for cutting the number of wells drilled, and fewer wells will mean fewer commercially viable discoveries.

The government estimates that up to 25bn barrels of oil and 44 trillion cubic feet of gas may remain to be discovered in the UK. Finding these reserves will require sustained high levels of exploration. On the whole, over the past 30 years the fiscal regime has been conducive to such exploration - that could now change.

Michael F Ridd, managing director, Croft Oil and Gas, Fountain House, Glasgow G3 7UN

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Monday March 29 1993

Spoils of the North Sea

ANY TAX reform as sweeping as the chancellor's new fiscal regime for North Sea oil inevitably creates winners and losers. The more important question is whether it creates the right incentives to ensure that maximum economic benefit is extracted from the dwindling energy resources that remain. Since the present arrangements are excessively complex, incorporate inadequate incentives for companies to control costs, and are ill-designed for a period in which many North Sea oil fields are reaching maturity, the reforms probably have more to commend them than the complaints of the smaller oil producers might suggest. But if form is any guide, they will not produce quite as stable a long-term regime as the chancellor would like.

Under the old regime, only a small number of fields paid PRT at all and most of these were older fields. This was because exploration and appraisal costs could be off-set against the income from existing fields, thereby reducing or eliminating the charge to petroleum revenue tax (PRT) and corporation tax. The effect was to cut the cost of exploration and appraisal to less than 17p in the pound, which provided a powerful incentive for drilling activity. But the tax taken from existing fields, which suffered from a combined rate of royalty and tax charges of just over 85 per cent, provided a countervailing disincentive to further development. As a result there was a risk that substantial energy resources would be left untapped. This has led to suggestions from some larger companies, which are responsible for about 30 per cent of the development of existing fields, that the exploration tax has been allowed to wag the development dog. It has also led to a great deal of lobbying.

Underlying logic

In his budget package, the chancellor appears to have bought the big companies' argument. A reduction in the rate of PRT from 75 per cent to 50 per cent means that the combined tax rate for those existing fields that pay royalty and corporation tax as well as PRT will fall from 85 per cent to nearer 70 per cent. And it is hard to quarrel with the underlying logic, given that the current rate

Mixed message for French right

THE SWEEPING election victory of the French conservatives has delivered two contradictory messages, which could lead them to adopt two opposite strategies of government. The simple message is that the electorate has handed down a categorical rejection of the discredited Socialist party, and given the conservatives a licence to change the country's political right-wing programme, even if this involves getting into fights with the US over trade, with the Community over farm policy, and with President Mitterrand over his constitutional position. But there is a deeper message, less exhilarating for the right, which should prompt them to adopt a cautious and even a conciliatory posture.

The case for caution is threefold. The conservatives do not really have a popular mandate for a hard-line right-wing programme, they have not offered any rapid solutions for the country's economic problems, starting with the apparently inexorable rise in unemployment, and the electorate will not thank them if they gratuitously rush into a dead-end political crisis with France's trading partners, or an unnecessary constitutional crisis at home.

The conservatives' popular base is more modest than their parliamentary majority would suggest. The collapse of the Socialist vote is almost wholly accounted for by the rise in the protest parties outside the governing mainstream, such as the extreme right-wing National Front and the ecologists. The conservatives' share of the ballot in the first round of this election - less than 40 per cent - was slightly smaller than in 1981, which must make it imprudent, therefore, for them to interpret a massive parliamentary majority as a massive popular mandate.

Popular alienation

This election thus confirms the existence of a strong undercurrent of popular alienation from the traditional parties of government, which first emerged in last year's regional elections. One factor is no doubt the Socialists' failure to stem the tide of unemployment; another is the tainting of the Socialist party by systematic involvement in corrupt financing practices. But the Socialists' fatal offence was to have succumbed to

ride may come before a fall, but there is no denying that there is a certain cockiness to the Clinton administration these days. Congress has been tamed, the press charmed, Yeltsin is still there and visiting foreign dignitaries impressed - all if only for the moment.

More than that, a certain style has been established. It combines collegial, activist, legalistic, inquiring and practical elements. It takes its lead, indubitably, from President Bill Clinton himself but it is equally evident in other key members of his administration.

Sir Leon Brittan, the EC trade commissioner, will get a heightened sense of this morning when he sits down with Mickey Kantor, the US trade representative, to work on a daunting agenda, of which EC procurement policy and temporarily suspended US sanctions against it are merely the most pressing. He will find on the opposite side of the table a man more assured and more comfortable with his brief than when they first met last month.

Mr Kantor, 53, born in Tennessee, where his family fought racial discrimination, but enamoured of his adopted California ("the closest we've got to a meritocracy"), a poverty and corporate lawyer who ran Mr Clinton's professional campaign last year, gets up early, wears braces, and has a subtle sense of humour.

Though it may come as no help to Sir Leon, Mr Kantor is, like most sensible Americans, a baseball freak. Last week's breakfast bagel was forgotten in discussing the revived fortunes of Fernando Valenzuela, the pitcher who relies on guile not force, but the trade analogies are not.

"Velocity in pitching, like philosophy in trade," Mickey Kantor declares, "is vastly overrated. It's all about location and staying ahead of the batters, that's how you'll be successful. It's not complicated. There are simple principles to adhere to." On his desk was a clipping from a Japanese newspaper showing Mr Yoshio Mori, the trade minister whom Mr Kantor was to meet later, playing baseball.

Yet when pressed if he cares more about ends than means, the lawyer demurs. "Once you sign an agreement it seems to me almost counter-intuitive, even dysfunctional not to live up to it." Nations have anti-dumping laws which, far from being necessarily skewed in favour of the plaintiff, exist "because there is a lot of dumping around".

However, laws, even in trade, are not, he goes on, set in concrete. "Change is the invariable law of politics and life. Change can be your friend." In perhaps a veiled

Mickey Kantor talks to Jurek Martin and Nancy Dunne about his daunting agenda in pursuit of open markets

Trade apostle with his eye on the ball

invitation to the EC to come back to the table for a multilateral steel agreement, "if your trading partner comes to you and says he can't live up to the terms of an agreement, you can talk". Intensified negotiation, he argues, is what should have been done last year, possibly avoiding the US finding that European steel imports had been dumped in the US. "I'm always looking for the dog that doesn't bark."

If the rules of the game fascinate him, trade theology does not. "I'm not going to be caught in a theological debate that does not lead to practical and pragmatic results. It does not matter what you are called or how you are labelled, it matters what we get done. The idea is not to engage in endless debate about whether someone is a free trader, a protectionist, a managed trader or results oriented."

He makes just one dogmatic exception. The US "is the largest open market in the world, and it is not going to change and everyone knows that. The rhetoric thrown around is only for effect, let's be mature and grown up about that."

He is inclined, naturally, to be more tolerant of US rhetoric for domestic consumption ("the political factor"), such as his own president has used when discussing about European Airbus subsidies or the presumed inequity of low US tariffs on Japanese mini-vans.

He contrasts that, perhaps ingenuously, certainly defensively, with "when the EC talks about protectionism and unilateralism, whatever the heck that means, that is somehow supposed to embarrass us and persuade us to take action that is in the interest of the EC or the Japanese or whoever is making the charges".

But, he goes on, it would be "audacious" to try to make a country like Japan be just like the US, which was arguably a motive in the Structural Impediments Initiative approach to market-opening practised by the Bush administration. "It is not my business to tell them how to organise society. You take the *keiretsu* (the Japanese system of



interlocking corporate networks) as a given and try to make it effective. It is my business to ensure that markets become more open."

Those caveats aside, Mr Kantor can be critical of Japan. For starters: "Japan can no longer stand aside and not engage in discussion on the Uruguay Round; this is not 45 years ago." For main course: "They don't need any protection from us or anybody else." For semi-conductor dessert: "I think their lack of comfort (with the US insistence on quantitative targets) could be more concerned with other criteria, including politics." For good reason, he is concerned that the 20 per cent market-opening "goal" of the semiconductor agreement will not be met this year.

The EC gets a generally similar ride with lots of complaints for its historic leadership. But "I don't understand why market access should be such a difficult problem. They should jump at the opportunity. The Germans, the English, the Dutch have been traders for centuries."

"Barriers," he goes on, "are not in anybody's interests. Agricultural variable levies, internal supports, the CAP, are not in anybody's interest. I'm not telling them how to handle it - that's not my business - but I do have the right and obligation to tell them what is in the interest of the US." On the discrimination of EC procurement policies, he says, more colloquially, "if I'm punching you, punching less

does not matter".

Critics of the emerging US trade policy contend that too many officials punch too often and in inconsistent furies, unlike the good old days when it was neatly compartmentalised between a handful of administration "experts" who believed, whatever they actually did, that trade should be free, and a Democratic-controlled Congress which played the protectionist foil.

Mr Kantor is an apostle of the horizontal approach to policy-making. Corporations and governments have found, he says, that it improves co-ordination. "Now, Treasury, State, Commerce, the National Economic Council, the National Security Council, USTR are constantly talking. There's a Tuesday morning meeting every week, horizontal discussions all the time. It takes a lot of discipline... but we talk so that we are all singing from the same hymn book." (This is a phrase in vogue in Washington: even Douglas Hurd, the British foreign secretary, was caught mouthing it here last week.)

It works, he contends, because the president himself is "completely engaged" reading memoranda all the time and knowing his brief as well as any of his officials. His respect for his boss, whom he first met in 1979 through Mrs Hillary Rodham Clinton, knows no bounds.

But if he takes his lead from Mr Clinton, he can argue his own way. "What appears from my studies and intuition is that the sum is greater than the parts. Exponential growth takes place from interaction between economies." But the benefits, in improved standards of living, must be widely spread at home and abroad.

He talks of extending the North American Free Trade Area southwards and then into co-operation with the Pacific basin, all with a view to creating "middle classes in the world". In this respect, his early career as a poverty lawyer, representing the lowest of the low, migrant farm labour in Florida and then California, was influential.

Referring to Cesar Chavez, the charismatic leader of farm labour in the 1960s and 1970s: "He profoundly affected my view of what needed to be done, how important it was to throw yourself into public issues and, now, how important NAFTA is in harmonising upwards workers' standards."

But he has his own ideal of where those standards are most perfectly found. A modest traveller ("I didn't make much as a legal services lawyer") he has been to Europe "a few times" and to Israel. In his present job, "I'd love to hold every meeting in Florence."

Samuel Brittan

ECB very much on drawing board



Despite the clouds over the Maastricht treaty and Euro-Deen Monetary Union, preparations for establishing the new European Central Bank in Stage Three are going ahead. The treaty itself goes into detail about the constitution and responsibilities of the bank, but says little about how it will operate.

Forward thinking on these matters has, however, been taking place under the aegis of the EC Committee of Central Bank Governors, which has already set up a small staff of its own: the committee itself is likely to be taken over by the European Monetary Institute when the latter is established in January 1994 under Stage Two of Emu.

Further light on how the ECB might operate is shed by two members of the central banks' staff, Carlo Monticelli and Jose Vinals in a paper entitled *European Monetary*

Policy in Stage Three, soon to be published by the Centre for Economic Policy Research.

Monetary policy, they are usually reminded, should be based on the supply of "central bank money", which in UK parlance corresponds to bankers' balances at the Bank of England. This should be targeted according to the authors, not on any final objective, like a price index or Nominal GDP, but on some intermediate target, in practice, a measure of the money supply.

Discussion of the paper at a recent conference in Barcelona made clear that the only measure of money supply likely to be used was fairly limited, covering a wide range of bank deposits, as well as cash, such as Britain's M4 or the German M3. A subsequent paper by the Bank of England's economic director, Mervyn King, has a chart hinting that the relation between the British M4 and inflation, which broke down in the early 1980s, might be about to re-establish itself.

One argument is that money supply targeting would provide some continuity with national central banks, several of which already target the money supply. Furthermore, money supply targets respond more quickly to policy than inflation itself and are easier to monitor, which would help to establish the institution.

A more interesting argument, emphasised even more by Professor Ronald McKinnon of Stanford University, is that the relation of the European money supply to incomes and prices could well be more stable than that for existing national currencies, as substitution between them would cancel out.

The EC paper also suggests that there are limits to how far the implementation of monetary policies can be delegated to the component central banks. For instance reserve requirements (virtually non-existent in the UK) would have to be harmonised. On the other hand, each national centre could maintain its own standing facilities with national banks.

However, conditions for the recognition of banks would have to be well harmonised to prevent the authorities in each national capital from trying to promote its own financial centre at the expense of others.

My own worry is how we get from

here to there. It does not seem to me conceivable that up to, say, December 31 1993, the Bundesbank will decide its policies with sole reference to securing low inflation in Germany; and then on January 1 1994, the European Central Bank will take over with the different objective of stabilising European Community prices.

There must surely be an intermediate stage when the still-independent central banks work together with an eye to the European price level, and perhaps experiment with some measure of the European money supply.

Prof McKinnon has advocated a "common monetary standard" under which the core EMU countries would co-ordinate monetary policies to achieve zero inflation for a common producer price index. His aim is to rehabilitate the European exchange rate mechanism; but it would be equally appropriate as a prelude to full Emu, or as a way of maintaining exchange rate stability while keeping options open.

Campaigners return

Debts of honour don't seem to be much recognised these days, let alone remembered after nearly half a century. All credit, then, to a group of British wrinklers preparing to return to northern Somalia, where they soldiered in the years just after the second world war.

The aim of the party, led by Anglo-Somali Society chairman Brigadier Malcolm Page, is at least partly to redeem what they see as the UK government's neglect of its obligations to former allies in the old British Somaliland Protectorate, now the self-proclaimed but unrecognised Somaliland Republic.

The debt is not just to the 1,000 or so Somali ex-servicemen and war widows remaining from 1949-45, says group member Cameron Morphet, a retired stockbroker who served as a subaltern in the protectorate. The ties go back to the survivors' grandfathers who fought alongside British troops in Dervish campaigns at the turn of the century.

"We shouldn't leave this strongly British-oriented people to the vagaries of UN action. They haven't had a fair share of the aid given to southern Somalia," he adds.

So far Riforma, a British company running mine-clearing operations, has offered to help him on arrival.

Millridge golf club raised £1,500, and the British Commonwealth Ex-Services League has promised small grants. "That will help some of the hardest hit, including war widows in a country devastated as a direct result of cold war rivalries," says Morphet. "But we should do more."

Intertwined

Perhaps it should be called "The Beautiful and the Damned". According to vibes emanating from Los Angeles, narcissistic pop-star Michael Jackson is to join disgraced junk bond financier Michael Milken in a new cable TV network which will seemingly focus on "education and entertainment".

Don't rush to tune in, though. True, Milken has completed a two-year jail sentence after pleading guilty to six counts of securities fraud. But he has yet to perform 1,800 hours of community service in each of the next three years.

Head count

Whatever Britain may be short of, it is evidently not people with "an impressive track-record in senior management, knowledge of the property market and extensive experience in land regeneration or a related field".

Almost 200 such paragons - in their own view, at any rate - have applied to become the first chief executive of the government's new Urban Regeneration Agency.

OBSERVER



"I suggest a half of the modest little house red since it's only a modest little upturn we're celebrating, sir"

Among so many, there may even be one deemed worth more than the advertised salary of £50,000. Charged with "unleashing the potential" of 150,000 acres of derelict and vacant land in England's towns and cities, the body will take over the work of English Estates, the government's industrial and commercial property developer, besides some of the grant programmes run by the environment department.

Since England's 11 Urban Development Corporations are mostly scheduled for scrapping before long, it seems likely that

some of their chief executives are among the 200 contenders. Alas, those questioned on the point proved uncharacteristically shy.

Not so, however, the man already doing what is largely the job newly offered: Tony Penner, chief executive of English Estates for the past 14 years. "I'm naturally going to have a go at it," he said. As for having such horses seeking to trample over him, "it's uncomfortable, but the discomfort was expected."

Cornered

Meanwhile the environment secretary Michael Howard has just received an invitation which presents him with a dilemma. Sent by Robin Smith - general manager of Copeland borough council in that remote corner of England, West Cumbria - it requests him to visit the town of Whitehaven.

If Howard turns up, he is sure to be lobbied for extra state aid for the area, not least because its road, rail and air links are inadequate. Yet if he cries off as he did when last invited, sending junior colleague Tony Baldry instead, he'll not only leave local citizens in no doubt that the government is snubbing them, but help to prove the point they're seeking to make.

Scheduled ministerial visits have also been called off by housing minister Sir George Young and board of trade president Michael Heseltine as well as Howard's other

junior colleague Robin Squire. "It underlines that we're the most remote travel-to-work area in England from Whitehall," says Smith. "Not only does that make it difficult for government ministers to get to us; it makes it difficult for businessmen too."

Weighty question

Last week's Washington trip by Helmut Kohl has complicated matters for his staff in Germany. Some of them have waged that their chancellor will be 14 kilos lighter on returning from his annual visit to an Austrian spa, due to begin on Wednesday.

But now he has been to the US, the decisive question is not how much he will weigh after the spa holiday, but the weight at which he'll start it.

Suspicious that he increased his bulk while in Washington are strengthened by onlookers' impressions that he was there not so much to meet the new US president as to renew his own acquaintance with a favourite restaurant, Filomena's in Georgetown. Certainly, hobnobbing before a White House meeting on Friday, he could talk of little else.

As a result Bill Clinton, who has proved himself more than a McDonald's man with recent appearances in several of Washington's trendier restaurants, added Filomena's to his list.

He might have done better to note the address of the spa.

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Fletcher King
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COMMERCIAL PROPERTY
CONSULTANTS
London Birmingham
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vita
21st CENTURY
MATERIALS AND
TECHNOLOGY
T.O.D.A.Y.
BRITISH VITA PLC

INSIDE

Vestey meat group seeks shareholder

Wedge New Zealand, the meat company owned by the Vestey family of the UK through their Union International group, plans big shareholding changes including searching for a new large shareholder. This follows a decision by the Vestey family to sell assets to restructure. Mr John Prendergast, Wedge managing director, said the family planned to sell about 50 per cent of the company, the fourth largest in New Zealand. Page 17

Gifts market upsets forecasts

Recent events in the gifts market have undermined the forecasts of a boom. Even though last week's yields for most classes of gifts moved up ahead of this week's biggest-ever gift auction, the market has performed far better in recent months than most people in the Treasury and the Bank of England appear to have expected it would do following the exit from the ERM. Page 18

New bond issues set record

New issues in the international bond market reached a record high in the first quarter, reflecting a favourable environment of falling interest rates and an increase in funding requirements, especially from sovereign borrowers. Page 19

Renown posts loss

Renown, Japan's largest clothing maker which owns upmarket UK retailer Aquascutum, posted continuing losses for the six months to the end of January due mainly to sluggish sales of women's wear. Page 17

Prospective p/e ratio

The latest prospective p/e ratio for the "500" index for calendar 1993 is 14.5 according to IBES, the consensus estimates source (last week 14.7). This compares with an IBES estimated p/e for the "500" of 18.0 (18.2) for calendar 1992. The official FT calculation of the historic p/e, based on the latest reported earnings, is 17.91 (18.22).

Market Statistics

FTSE 100 index	25	London share index	28-27
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Clark (UK)	18	Inchcape	18
Clark (UK)	18	Inchcape	18
Clark (UK)	18	Inchcape	18

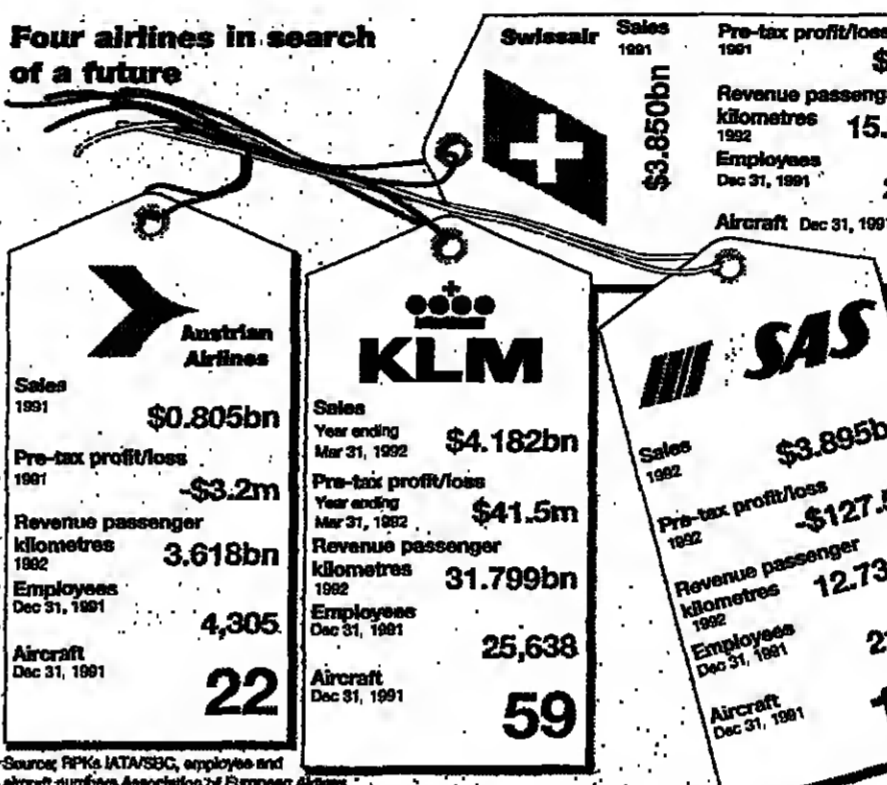
News Corp seeks \$3bn and The Post

By Alan Friedman in New York
MR RUPERT Murdoch's News Corporation is seeking a \$3bn revolving loan from a group of 30 to 40 international banks to help refinance outstanding debts at lower interest rates.
Although terms of the deal, believed to have a maturity of more than five years, were not available, it is understood that Citibank of the US and Midland of the UK are among the lead banks involved.
The \$3bn refinancing is the latest step in the restructuring of News Corp's debt. In late 1990, News Corp was facing severe financial problems with debts of more than \$7.5bn. News Corp was forced into lengthy negotiations with nearly 150 lending banks and after months of talks, it was agreed that about \$7.5bn of debt would be restructured over three years.
Separately, Mr Murdoch is expected this morning to make a formal proposal in a New York bankruptcy court to take control of The New York Post, the bankrupt tabloid newspaper facing management disarray and a severe cash crunch.
Mr Murdoch, who lost an estimated \$150m when he last owned the newspaper between 1978 and 1988, on Friday evening held a three-hour meeting with Mr Abe Hirschfeld, the car parks magnate who has controlled The Post since March 12. It is believed the two reached an informal agreement under which Mr Hirschfeld said he would not oppose Mr Murdoch's offer at today's court hearing.
The offer will involve Mr Murdoch providing operating capital and taking control of the paper for the next 60 to 90 days, pending the approval from the Federal Communications Commission (FCC) of a request to waive rules that normally prevent cross-ownership of both a newspaper and a television station in one city. The FCC rules caused Mr Murdoch to sell The Post in 1988 because he also controlled a New York TV station.
If today's court hearing goes well Mr Murdoch could obtain operating control of the newspaper from as early as tomorrow. He already has the support of Mr Mario Cuomo, New York governor, and the paper's editorial staff, creditors and managers - many of whom have been angered by the behaviour of Mr Hirschfeld.
Mr Murdoch's costs over the next 60 days may reach \$2m and he would then have to provide a plan to bring The Post out of Chapter 11 bankruptcy protection.

Paul Betts explains why a group of smaller airlines are talking about partnership

Co-operating to survive in a global market

Mr Jan Carlzon, the chief executive of Scandinavian Airlines System (SAS), describes the current flurry of mergers and partnerships in the airline business as the "ketchup bottle effect". "You shake and shake the bottle and nothing seems to happen until it all comes pouring out at once."
For the past eight years, the SAS boss has been one of the most consistent and ardent proponents of transnational co-operation to enable smaller and medium-sized airlines like SAS to compete against the larger European, American and Asian carriers in an increasingly deregulated and global industry.
He is now in the throes of complex partnership discussions with three other medium-sized European carriers - Swissair, KLM Royal Dutch Airlines and Austrian Airlines - to try to establish a "fourth force" in the European airline market to compete against the big three - British Airways, Air France and Lufthansa of Germany.
If successful, the current talks could ultimately lead to a merger of the four carriers which combined would be larger than BA, Air France or Lufthansa. It would have a fleet of around 270 aircraft, employ more than 80,000 people, and carry around 30m passengers a year.
The four carriers have already established 16 working parties to study how they could work more closely together by creating a multi-hub traffic system based around Amsterdam, Copenhagen, Geneva and Vienna; integrating their fleets and future aircraft purchasing policies; combining frequent flyer programmes; rationalising their structures and cutting costs by setting up, for example, one head office instead of four.
One working paper leaked last week goes as far as proposing a full merger with a joint company controlling four separate operating arms with aircraft flying under the same logo and common colours.
The four airlines insist that nothing has yet been decided and that a wide range of proposals are still under consideration. The conclusions of the different studies are to be submitted to the heads of the four airlines next month. By the end of June, they are expected to take a decision.
"What is clear is that the four airlines want to move quickly," said one party to the talks.
The convoluted ownership structure of the airlines, especially SAS in which the Swedish, Danish and Norwegian governments all own stakes, is likely to complicate merger plans. The unions and some vocal sections of government are also expected to resist radical merger proposals to protect employment and defend national pride.
But there are compelling reasons for the four airlines to gang together. All four share common problems as well as similar strategies. Their domestic markets are too small to support a strong international airline. For this reason, they have all long branched out to forge links with carriers around the globe to operate viable traffic networks.
SAS has developed links with Continental in the US, LAN Chile in South America, Thai in south east Asia, ANA in Japan. In the UK it owns 25 per cent of Airlines of Britain which operates the regional carrier British Midland.



Rivals emphasise doubts at IBM

By Louise Kahoe in San Francisco
IBM's competitors moved swiftly over the weekend to capitalise on uncertainty created inside and outside the world's largest computer maker by the appointment as chief executive of Mr Louis Gerstner, a man with no computer industry experience.
Choosing Mr Gerstner, who joins IBM on Thursday from RJR Nabisco, the food and tobacco group, was a bold but risky way for IBM's board to try to revitalise the company, many computer executives and analysts said.
Questions about IBM's technology and product strategies will pile up while Mr Gerstner gets to grips with the company, they added.
"The customer is saying, holy mackerel, why should I buy any more from IBM until this guy figures out what he is doing?" said Mr Scott McNealy, chief executive of Sun Microsystems, the leading computer workstation manufacturer.
Computer buyers realise that Mr Gerstner is likely to eliminate some products as he streamlines IBM, but they don't know which ones, he explains.
The fear of buying IBM products that will soon be obsolete "gives Sun's sales people a really nice run at the IBM customer base".
If IBM's customers are worried, its employees are living in fear and dread of the "axe man", a reputation Mr Gerstner brings with him from RJR Nabisco, where he lopped the workforce and sold off assets.
Wall Street analysts expect Mr Gerstner to accelerate the "downsizing" of IBM by cutting up to 100,000 people from the company's 300,000 payroll.
Among computer experts, another source of concern is Mr Gerstner's lack of prior experience in the computer industry.
Others see Mr Gerstner's lack of computer industry experience as a positive advantage because he will be forced to rely upon the advice of others, pushing responsibility down the ranks.
But that raises questions about who Mr Gerstner will choose as his top advisers.
"The management team he builds is much more important than what he knows about chips and flops," said Mr Regis McKenna, an industry consultant.
"Making IBM faster on its feet is going to be the key challenge," IBM's wish-list, Page 10

UK is back on track with a monetary policy

It has taken six months. But Britain now has a comprehensive monetary policy to replace sterling's membership of the European exchange rate mechanism.
The final touches were provided by Mr Norman Lamont, the chancellor, in his Budget. The logic behind the policy was fleshed out by Mr Mervyn King, the Bank of England's chief economist, at a seminar in London last week.
The chancellor devoted only six paragraphs of his 1,100 page Budget speech to monetary policy. The two innovations contained in the paragraphs - a new monetary growth target and a new monetary policy framework - were greeted by monetarists and appeared to mark a diffusion of the government's previous stance.
M0, the narrow measure of money supply, which had been targeted by the government since 1984, is now subject to a "monitoring range". If growth of M0, which consists mainly of notes and coins in circulation, strays outside the 3 to 4 per cent range during the period of the government's medium-term financial strategy to 1997-98, it will be "likely to be a cause for concern".
The existing monitoring range for annual growth of M0, the broad measure of money supply which also embraces bank and building society deposits, was modified to 3 to 5 per cent from the 4 to 5 per cent set last November for the period to the end of March. The M0 monitoring range will also apply for the full life of the MTF and movements of broad money outside its bands should sound a warning to the government.
The purpose of monetary policy is to achieve low inflation. Shortly after leaving the ERM, the government announced an explicit inflation target of keeping underlying inflation, measured by the retail prices index minus mortgage interest payments, in a 1 to 4 per cent range over the life of this parliament.
This inflation target is now

Economics Notebook
By Peter Norman

at the centre of the government's anti-inflation strategy. According to the Treasury "Red Book" published on Budget day, the interest rate decision needed to keep inflation in the target range will be based on a continuing assessment of monetary conditions, measured mainly by the growth of M0 and M4, as well as movement of the exchange rate and asset prices. While there are no targets or monitoring ranges for sterling or

Glaxo to withdraw claims for Zantac

By John Authers in London
GLAXO Holdings, Europe's largest pharmaceuticals company, has agreed to demands by the US Food and Drug Administration that it withdraws some promotional claims about its ulcer treatment drug Zantac.
In January this year, the FDA said Glaxo "frequently suggests unapproved uses for Zantac and consistently makes comparative efficacy and safety claims that are not supported by adequate data".
Glaxo stopped publishing the contested claims in advertising and promotional literature earlier this month, but objected to the FDA's claims and said it was unlikely to write to US doctors.
The company has agreed with the FDA on the content of a letter to be sent to doctors in the US, correcting its standard literature.
Discussions continue on how Glaxo's retractions should be published.
Zantac is the world's best-selling medicine with annual sales of about \$2bn (\$2.64bn), representing 45 per cent of Glaxo's turnover. Annual US sales are estimated by analysts at \$1.4bn.
A analyst said: "This makes it harder for Glaxo to differentiate Zantac from Tegamet. When there is a cheaper generic version of Tegamet on the market in the US next year it may be harder for Zantac to maintain market share."
The company stressed yesterday that its right to distribute the drug in the US had never been questioned.

DON'T CRACK UNDER PRESSURE

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SWISS MADE SINCE 1860

COMPANIES AND FINANCE

EFM Dragon success in battle for Drayton Asia

By John Authers

EFM DRAGON Trust has won control of Drayton Asia Trust, removing yet another investment vehicle from the stable managed by Invesco MID.

Edinburgh Fund Managers said it had received acceptances for its bids from 51.26 per cent of Drayton Asia's capital and 42.04 per cent of its warrants.

Mr Ratan Engineer, chairman of Drayton Asia, which strongly contested the bid, admitted that EFM Dragon was "home and dry", but continued

to claim that the deal was unsatisfactory for its shareholders, as there was no offer of a cash alternative.

Last week Drayton dropped alternative proposals, which would have offered shareholders the choice between a unit trust and a new split capital investment trust, blaming opposition from CIN, the manager of the British Coal Pension Funds.

CIN has a 20.1 per cent stake in Drayton Asia, and a controlling interest in Edinburgh Fund Managers, which manages EFM Dragon.

EFM Dragon must now calculate Drayton Asia's formula asset value as at March 26 before Drayton shareholders can be issued with Dragon shares under the terms of the bid. This will be done "as soon as possible".

The offer has been extended. Sir Hugh Byatt, chairman of EFM Dragon, said: "The way is now clear for shareholders and warrant holders to accept the offers in order to merge Drayton Asia with Dragon and create the largest pure Asian investment trust in the UK."

Buckingham holders told to sell

By Peggy Hollinger

INDEPENDENT directors of Buckingham International will today advise investors in the struggling hotels and outsource group to sell their shares, as its cash difficulties appear greater than previously thought.

Their statement marks a change of opinion on a \$12.4m offer for Buckingham's common and loan stock from Fur-

lies, a Jersey company controlled by Jemma Trust and Nasir Holdings. Together they own 38.7 per cent of Buckingham and the Takeover Panel ordered them to bid for the rest.

The directors will tell shareholders they should either accept the offer or sell their ordinary shares in the market for a higher price. They should retain, though, their loan stock. Furries is offering 2.75p

per ordinary share and 27.5p per £1 nominal of loan stock. Earlier this month the directors advised shareholders to reject the bid and retain an ongoing interest. The shares closed down 4p on Friday at 5p.

The group's survival, however, is now in doubt if it cannot find funding - either through project finance or asset sales - before the middle of 1993. £100m.

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Kabi-Pharmacia (Sweden)	Erbamont (Italy)	Pharmaceuticals	\$915m	Montedison agrees sale
Anheuser-Busch (US)	Grupo Modelo (Mexico)	Brewing	\$336m	Near-18% stake a first
Warner-Lambert (US)	Wilkinson Sword (Brit)	Toiletries	\$100m	Changing hands again
BBA (UK)	Haselby (Switzerland)	Electrical engineering	\$85m	BBA creating power
BBA (UK)	MWB (Germany)	Electrical engineering	\$21m	Distribution equipment group
Minoro (Luxembourg)	Stonley Iberia (Spain)	Construction materials	\$55m	Another Redland disposal
Phoenix Home Life Mutual Insurance (US)	Unit of Alliant Hume Int'l (UK)	Fund management	\$38m	Alliant exits US
Bemrose Corp (UK)	Bemrose Yattendon (US)	Advertising services	\$12.8m	Buys out JV partner
Paterson Zochonis (UK)	Pollina (Poland)	Detergents	\$2.8m	Taking 80% stake
Lucas Industries (UK)	JV	Auto components	n/a	30-70 initial split

Inchcape motoring to strong performance

Andrew Bolger looks at the progress of the group since the acquisition of TKM

INCHCAPE, the international motor and business services group, is today expected to report sharply increased profits and earnings, thereby maintaining its strong performance in spite of recession.

Reporting good results will also be a significant landmark for Mr Charles Mackay, who took over at the end of 1991 from Sir George Turnbull, the group's former chairman and chief executive.

Mr Mackay had already been chosen to work as chief executive alongside Sir George, but the chairman's sudden illness meant the succession had to be brought forward at very short notice. Sir George, who died in December, helped transform the former colonial trading house into a premium-rated FTSE-100 stock, which currently has a market value of more than £3bn.

When Sir George became ill, Mr Mackay, who had led the Far Eastern operation, was in London negotiating the £382m acquisition of Tozer Kemsley Millbourn, the motors and retailing concern. The purchase, from Brierley Investments of New Zealand, was funded by a 1-for-3 rights issue, Inchcape's first since it was floated in 1988.

Mr Mackay said there was no time for any handover: "We were right in the middle of the extraordinary general meeting to consider Berisford's offer. The results are likely to be announced within the next week."

Meanwhile, it is believed that one of the four dissenting directors has been rebuffed in attempts to get other bids considered. The majority of the board backs the bid from Berisford, which was invited by Clark's advisers, Schroders, to participate in the tender process.

The debate will be fuelled by the publication of the company's annual results and an accompanying letter calling an

TKM deal, so one could hardly have asked for a more inauspicious start. It worked very well because the TKM deal galvanised the whole company, pulling everyone together - it was very exciting. The rights were well received in the City and it gave all of us a sense of pride.

"The more fundamental thing was George's legacy - it didn't all collapse when George himself suddenly disappeared. Inchcape under George was remarkably free of company politics. That team spirit he fostered just rode on: the momentum was unstoppable. People also closed ranks and did it as a sort of tribute to George."

Sir David Orr, who was chairman of the group between 1983-86, stepped in to fill the role again until September, when Sir David Plastow arrived. Sir David, 60, is another motors veteran, having just retired as chairman from Vickers, the engineering group that includes Rolls-Royce Motors.

The group has appointed three executive directors to the board and two non-executives in the last year. Mr Mackay said: "The people who had been brought in by George in their mid-forties woke up one day and found they were in their fifties. It crept up on us and it was felt necessary that we get the right age profile for



Charles Mackay: became chief executive at the end of 1991

which our response is "hang on guys, we've just started this one - let's not run before we've learned to walk."

In spite of Inchcape's recent success, some observers expressed unease that the TKM deal increased the exposure to motors, lifting the proportion of sales and profits from 50 to 60 per cent.

Mr Mackay said: "One reason people are concerned is that there is a general perception that motors is a cyclical business. If you look at Inchcape and our track record, you will find that is not actually the case. We're not a Ford, and we're not a Tom Cowie [the UK motor distributor]. We're a relatively unique, as an import/distribution specialist."

"When a downturn comes, our spread of business across 26 countries means that we've managed to keep going through all recessions. The UK may be going through a tough time, but Hong Kong has just had a boom year - and so has Greece. There's not another motors group of which that is true."

"The big mistake people make is in assuming that size of market determines profitability - whereas almost the reverse is true."

The chief executive also expressed satisfaction with the progress of "global streaming", that is dividing the group's

activities by business - motors, marketing and services such as shipping and insurance - rather than by location.

Mr Mackay said this process had undoubtedly started to produce benefits, although more remained to be done. "One thing we have not yet got to grips with is the transfer of best practice. It's amazing how much resistance there is - just sheer inertia."

In spite of the success of the TKM deal, Mr Mackay sounds a cautionary note: "Acquisitions hit the headlines - and there's a danger there, both internally and externally, that everyone starts thinking that is what it's all about."

"To put it in perspective, if you go back to 1982, our motors business made operating profits of about £10-12m. By 1991 (pre-TKM acquisition) we'd got it up to about £120m. Nearly all of that came from organic growth, doing better, selling more cars, getting more efficient."

He believes 75 per cent of growth in the motors business should come from organic growth - defined as including bolt-on acquisitions, and only about 25 per cent from larger acquisitions. "We have made it absolutely clear that does not mean we have to get that quarter - if we find the right acquisitions, we will - if we don't, we won't."

NEWS DIGEST

C&J Clark debate heats up

MEMBERS of the 500-strong Clark family will meet early this week to consider alternatives to a sale of C&J Clark, the private shoe manufacturer which is the focus of an offer from foods and property company, Berisford.

The debate will be fuelled by the publication of the company's annual results and an accompanying letter calling an

extraordinary general meeting to consider Berisford's offer. The results are likely to be announced within the next week.

Meanwhile, it is believed that one of the four dissenting directors has been rebuffed in attempts to get other bids considered. The majority of the board backs the bid from Berisford, which was invited by Clark's advisers, Schroders, to participate in the tender process.

H Clarkson lower

Reflecting difficult trading conditions, especially in insurance, pre-tax profits of Horace Clarkson fell from \$5.5m to \$0.5m for 1992.

The final dividend has been cut from 5.25p to 1p for a total of 1.5p (8p). Losses per share were 1.2p (12.9p earnings).

Turnover was down at \$27.1m (\$42m). At the pre-tax level, shipbroking fell to \$3.5m (\$4.2m) while insurance losses were \$2.1m (\$1.8m profits).

Moorfield Estates

Moorfield Estates, the property group, turned in increased pre-tax losses of \$2.18m for the 14 months to December 31, against a restated \$1.2m in the previous year. The result however, was struck after provisions of \$1.13m resulting from a bad review of a March 1992 portfolio valuation.

Losses per share were 30.4p (11.4p) and there is no dividend (0.1p).

GR in the red

GR (Holdings), which has interests in property, leisure

and fitness, and sheepskin processing, fell \$124,783 into the red in the six months ended December 31. Last time there were pre-tax profits of \$43,830.

Turnover amounted to \$2.63m (\$3.45m). Although there were losses per share of 1.3p (1.5p earnings) the group is paying an unchanged interim dividend of 0.4p. Last time there was also a special interim of 25p.

Garton Engineering

Garton Engineering, the engineering components and special fasteners group, announced a sharp fall in pre-tax profits from \$1.36m to \$254,561 in 1992.

The result last time was boosted by exceptional receipts from insurers following a fire at its Midlands site.

Turnover improved to \$20.8m (\$19.5m). Earnings per share fell from 25.84p to 4.88p and the proposed final dividend is cut to 5p (5.25p) for a reduced total of 4p (7p).

Plasmec ahead

Despite adverse trading conditions, sales of Plasmec, the USM-quoted telecommunications and switching products group, rose by 19 per cent to \$14.4m in 1992, while pre-tax profits climbed from \$179,882 to \$272,472.

Earnings per share, were 10.4p (2.5p), while the recommended final dividend is 2.25p for a total of 3.75p (2.5p).

Mr John Crosse, chairman, warned that the first half would be disappointing, but he was cautiously optimistic that the second half would show a significant improvement.

METANOL DE ORIENTE, METOR, S.A.

U.S.\$204,000,000
Project financing for a
737,000 metric tons p.a. methanol plant
at Jose, Venezuela

Major Shareholders

Petroquímica de Venezuela, S.A.
Polar Uno C.A.

Mitsubishi Corporation
Mitsubishi Gas Chemical Co. Inc.

U.S.\$134,000,000

Term Loan

Provided by
International Finance Corporation

and through participations in the IFC loan by

Underwriters

Banque Indosuez

The Long-Term Credit Bank of Japan, Limited

The Mitsubishi Bank, Limited

Swiss Bank Corporation

Participants

Banque Nationale de Paris

Dresdner Bank AG

The Mitsubishi Trust and Banking Corporation

Union Bank of Switzerland

Deutsche Bank AG

Crédit Lyonnais

ING Bank

Société Générale

The Dai-ichi Kangyo Bank, Ltd.

Banque et Caisse d'Épargne de l'État Luxembourg

Banque Française du Commerce Extérieur

U.S.\$70,000,000

Co-Financed Term Loan

U.S.\$42,000,000

Provided by

Lead Manager and Managing Agent
The Export-Import Bank of Japan

U.S.\$28,000,000

Provided by

Co-Lead Manager and Administrative Agent
The Long-Term Credit Bank of Japan,
Limited

Manager

Deutsche Bank AG

Participant

ING Bank

The undersigned acted as financial advisors to Metor, S.A.
and structured and arranged the financing.

International Finance Corporation

Banque Indosuez

March 1993

BusinessWeek

This week's topics:

IBM's New Boss

Why Yeltsin May Prevail

New French Regime Faces Many Obstacles

Clinton Can't Put Off Foreign Policy

Carlton Communications' Michael Green

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SAKURA FINANCE ASIA LIMITED

(Incorporated in the Cayman Islands)

US\$ 1,200,000,000
Subordinated Floating Rate Notes 2000

In accordance with the provisions of the Notes, notice is hereby given that the interest rate for the three month period commencing 29th March, 1993 will be 3.55% per annum. Coupon Payment Date 29th June, 1993.

Coupon Amounts will be:

US\$9,072.22 on Notes of US\$1,000,000

US\$4,536.11 on Notes of US\$ 500,000

US\$ 907.22 on Notes of US\$ 100,000

SAKURA TRUST

INTERNATIONAL LIMITED

Agent Bank

U.S. \$100,000,000 Floating Rate Subordinated Loan Participation Certificates Due 2000

Issued by

Merrill Lynch Bank AG

(Incorporated in the Federal Republic of Germany with limited liability)

for the purpose of funding and maintaining

a subordinated loan to

The Saitama Bank, Ltd.

(Incorporated in Japan with limited liability)

Notice is hereby given that for the interest period from March 29, 1993 to June 29, 1993 the Certificates will carry an interest rate of 3.575% per annum. The amount of interest payable on June 29, 1993 will be U.S. \$91.36 per U.S. \$10,000 principal amount of Certificates.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank

CHASE

March 29, 1993

ANNUAL GENERAL MEETING

Notice is hereby given that the 152nd Annual General Meeting of Provident Mutual Life Assurance Association ("the Association") will be held at the Barber Surgeons' Hall, Monkswell Square, London EC2Y 5BL on Wednesday, 21 April 1993 at 12.30 pm, for the following purposes:

- Resolution 1. To adopt the Report and Accounts for the year ended 31 December 1992.
- Resolution 2. To re-elect the Rt. Hon. Lord Farnham, who retires by rotation, as a Director of the Association.
- Resolution 3. To re-elect Mr Peter Neville Buckley, who retires by rotation, as a Director of the Association.
- Resolution 4. To re-elect Mr Raymond Percival St. George Cazalet, who retires by rotation, as a Director of the Association.
- Resolution 5. To re-appoint Price Waterhouse as Auditors of the Association, to hold office until the conclusion of the next Annual General Meeting.

Mrs V. G. C. Steadman

Company Secretary, 3 March 1993

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him or her. A proxy need not be a member of the Association. A form of proxy can be obtained by writing to the Company Secretary at the Association's Registered Address.

Provident Mutual Life Assurance Association.
Registered Address: PO Box 508, 25-31 Moorgate, London EC2R 6BA
Registered in England no 8870

PROVIDENT MUTUAL

Bank of Tokyo (Curaçao) Holding N.V.

U.S.\$800,000,000

Subordinated Guaranteed
Floating Rate Notes Due 2000

Guaranteed on a subordinated basis
as to payment of Principal and Interest by

The Bank of Tokyo, Ltd.

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the three months period 29th March, 1993, to 29th June, 1993, has been fixed at 3.5000 per cent per annum. Coupon No.11 will therefore be payable on 29th June, 1993 at US\$ 4,472.22 per coupon from Notes of US\$500,000 nominal and US\$ 447.22 per coupon from Notes of US\$50,000 nominal.

The Bank of Tokyo, Ltd.

London

Agent Bank

29th March, 1993

OFFICIAL NOTICE

The loss has been reported to us of the following London Metal Exchange silver warrants:

WAS.	BRAND	WEIGHT TROY OUNCES
245690	Hoboken	9811.95
268512	Hoboken	10001.253
234287	Hoboken	10310.42
261367	DRW	10197.85
240258	DRW	9808.84
238961	Hoboken	10178.50
265532	DRW	10287.25

stored in warehouse C Steinweg, Rotterdam.

We have been requested to issue replacement/duplicates of these warrants. Anyone claiming title to these goods is invited to enter protest by means of a Summons against the delivery of the said material or the issuing of substitute warrants.

G. SHAW LOWELL & SONS LTD.
PLANTATION HOUSE, 31-5 FENCHURCH STREET,
LONDON EC3M 3JX

NEWS IN BRIEF

Banesto arm launches Pta12bn bid

LA CORPORACION Banesto, the Spanish industrial holding company, is bidding for the 64 per cent of Spanish property group Inmobiliaria Urbis it does not already own, AP-DJ reports from Madrid.

La Corporacion, owned by Banco Espanol de Credito, the Spanish bank, is offering Pta600 a share, plus Pta50 per subscription right to a capital increase, valuing the stake at more than Pta12bn.

● Sun Hung Kai Properties, the leading Hong Kong property development company controlled by the Kwok family, has announced a 21 per cent rise in net profits for the first half to December for HK\$2.24bn (US\$292m), up from HK\$2.07bn (US\$278m) in 1992, writes Simon Davies in Hong Kong.

The interim dividend is set at 46 cents a share, up from 39 cents. In spite of uncertainty over the Sino-British dispute over political reform, demand for its residential projects had been strong so far this year.

● Ericsson, the Swedish telecommunications group, is planning a convertible bond issue worth up to SKr1.1bn (\$23m), to help finance acquisitions, writes Christopher Brown-Humes in Stockholm.

Assuming current market conditions, the interest rate will be about 6 per cent and on full conversion 8.4m shares will be created, equal to 4 per cent of the shares in issue.

● BTP Fongorolle, the French construction group, shrugged off the building industry slump to muster a modest increase in consolidated profits of 2.2 per cent to FF\$410m (\$73.2m) in 1992 from FF\$401m the year before, writes Alice Rawsthorn in Paris.

It suffered losses on its property interests and was forced to make hefty provisions on the fall in value of its properties. Fongorolle, its construction business, increased net profits in spite of a 6 per cent fall in sales to FF\$37.2bn.

● Kansallis-Osake-Pankki and Union Bank, two Finnish banks, have had their short-term ratings upgraded to A1 from A2 by IBCA, the European ratings agency, writes Christopher Brown-Humes.

Vesteys to put half of NZ meat group up for sale

By Terry Hall in Wellington

WEDDEL New Zealand, the meat company owned by the Vestey family of the UK through their Union International group, plans shareholding changes including a search for a new large shareholder.

This follows a decision by the Vesteys to sell assets to restructure their businesses.

Mr John Prendergast, Weddel managing director, said the family planned to sell about 50 per cent of the company, which is the fourth largest in New Zealand.

One option was to find an overseas investor to buy 30 per cent of the company, and sell the remaining 20 per cent through a public flotation in New Zealand.

Weddel has appointed Buzle Wilson, a New Zealand sharebroker, and S.G. Warburg of the US to advise on the sale, and Cavill White Zealand Securities, another New Zealand broker, to advise on a public flotation.

Mr Prendergast said the flotation would be scheduled for the last quarter of this year with Cavill White as lead broker and manager.

Weddel operates five large processing plants in the North Island. In 1992, it recorded sales of NZ\$265m (\$208.3m). It processes and markets 11 per cent of the country's mutton and lamb, 17 per cent of its beef, and 27 per cent of its veal.

Mr Prendergast said most of its products were sold internationally through the Weddel brand, the world's largest and most recognised internationally traded meat brand.

The company has shareholders' funds of NZ\$70m, and has operated in New Zealand since 1900. Mr Prendergast said the capital raised would enable it to undertake a number of projects.

Mr Terry Robinson, Union International chief executive, said Weddel had traded successfully and because it held an important part in the global meat market, Union International was keen to retain a large strategic shareholding.

Weddel's position would be enhanced by winning an appropriate partner and from additional funding.

"This proposed restructuring would enable Weddel to optimise its trading opportunities from the increasingly competitive position of the New Zealand meat industry and from improving prospects of global trade arising from the Uruguay round of Gatt negotiations," Mr Robinson said.



Terry Robinson: keen to keep a large strategic holding

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Adia passes dividend and plans rights issue

By Ian Rodger in Zurich

ADIA, the troubled Swiss employment agency which plunged into loss last year, has passed its dividend for the second year running and proposed a recapitalisation involving a SF\$250m (\$166m) rights issue.

The net loss, at SF\$219m, was slightly larger than estimated in January, and compares with a profit of SF\$25m in 1991. The group faced heavy restructuring costs following excessive diversification in the late 1980s when it was controlled by Mr Werner Rey, the disgraced financier.

Revenues were flat at SF\$3.2bn. Core businesses accounted for SF\$1.26m, non-core businesses SF\$1.94m, with the remainder coming from write-offs. Net debt at year end was SF\$322m compared with SF\$1.48m a year earlier.

The directors proposed cutting nominal share capital to SF\$2.6m from SF\$25.6m and nominal participation certificate capital to SF\$2m from SF\$20m. A rights issue would be launched, on the basis of 11 bearer shares at SF\$100 for each nine held and 11 class B participation certificates at SF\$100 for each 45 held.

The rights issues would be underwritten to the extent of SF\$200m by Mr Klaus Jacobs and Asko Deutsche Kaufhaus, which between them held 56.2 per cent of the votes and 43.2 per cent of the capital.

Asko said it would consider selling its stake in 1994 or later once the group had returned to profitability. Adia said it could have a small loss in 1993.

Exceptional gains lift Belgian retailer as sales growth slows

By Andrew Hill in Brussels

UNDERLYING profits at Delhaize "Le Lion", Belgium's largest retail group, slipped in 1992, and sales growth slowed.

However, the group announced a 46 per cent rise in net consolidated profits, because of exceptional gains on the disposal of Treasury stock and the sale of its Pingo Doce supermarkets in Portugal.

The company, which forecast a sharp increase in profits in January, reported net consolidated profits of BF\$6.38bn (\$189.3m), against BF\$4.37bn in 1991. Stripping out the exceptional gains, net profits emerged at BF\$3.86bn.

The directors are recommending a net dividend of BF\$20 per share, against BF\$17.4 in 1991, and an additional BF\$6.6 a share to celebrate the group's 15th anniversary.

Overall sales rose by 5.3 per cent to BF\$27bn from BF\$25.6bn in 1991, in spite of a 7 per cent fall in the value of the dollar. Turnover was dominated by the Belgian stores which increased sales by 6.3 per cent to BF\$11.1bn.

In the US, the group blamed a sluggish economy and last year's alleged attempts to "smear" the reputation of the Food Lion stores for a 13.2 per cent fall in net profits after depreciation. Sales increased by 11.8 per cent to \$7.2bn, but net profits dropped to \$178m from \$205m. Despite the US difficulties, Food Lion increased its chain from 881 stores to 1,012 and intends to open up to 110 supermarkets this year.

Sales slowed at Super Discount Markets based in Atlanta, but it returned to the black with net profits of \$800,000. Delhaize said its Czech subsidiary, which operates seven stores in Prague, earned a small profit, while its Greek operation increased operating profit.

Mr Hans Hauner, chairman, forecast an increase in 1993 earnings after operating profits for the first two months climbed 17 per cent from the year earlier level.

Assets of Girocredit climbed 3 per cent to Sch324bn from Sch315bn. Girocredit, which acts as a clearing house for Austria's savings institutions, is in talks with Erste, the Vienna-based savings bank, and several leading provincial banks to combine most of the savings and loans sector.

The dividend to its shareholders, who consist of various Austrian savings banks, has been cut from 8 per cent to 3 per cent. Mr Hans Hauner, chairman, forecast an increase in 1993 earnings after operating profits for the first two months climbed 17 per cent from the year earlier level.

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Publicis earnings steady at FF\$148.9m

By Alice Rawsthorn in Paris

PUBLICIS, one of France's largest marketing services groups, maintained net profits at FF\$148.9m (\$28.7m) last year in the face of fierce competition in the European advertising market.

Mr Maurice Lévy, chairman, said that in spite of the difficult trading climate Publicis had produced a "satisfactory performance" during the year.

The group's turnover was static, at FF\$19.5bn although Publicis said it would have risen by 5 per cent if there had been constant exchange rates.

European advertising agencies had a tough time in 1992 because of the economic slowdown and the long-term trend away from conventional media advertising to other forms of "below the line" marketing, which are often less profitable.

These problems were aggravated in France by concern about the effect of *le loi Sapin*, the new regulations on media buying.

However, Publicis managed to compensate for the sluggish state of the market by winning new business. Its new accounts include the advertising for Perrier and Vitel mineral water, which it was awarded by Nestlé, the Swiss food group, following Mr Lévy's role in co-ordinating Nestlé's communications strategy during its bid battle for Perrier.

Mr Lévy said Publicis hoped to maintain sales in 1993, but warned that profits could be affected by the impact of *le loi Sapin* and by continued cuts in marketing budgets.

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Crédit Lyonnais hires agency

By Alan Friedman in New York

CREDIT Lyonnais, the state-owned French bank that controls MGM, the loss-making Hollywood studio, has taken the unusual step of hiring Creative Artists Agency (CAA), the leading Hollywood talent agency, to advise on the management and strategy of the bank's \$3bn entertainment industry loan portfolio.

The hiring of CAA, whose chairman Mr Michael Ovitz is considered the most influential power broker in Hollywood, comes in the wake of controversy, lawsuits and a flood of red ink from MGM.

Crédit Lyonnais took control of the studio last year after a bitter court battle with Mr Giancarlo Parretti, the controversial Italian financier who received a \$1bn loan from the bank to buy MGM in 1990.

For Mr Ovitz the deal with Crédit Lyonnais marks another step towards his goal of expanding from the handling of movie industry talent to investment banking.

Mr Ovitz has worked on deals such as the \$65m acquisition of MCA/Universal, the Hollywood studio, by Matsushita of Japan and the \$3.4bn purchase of Columbia Pictures by Sony of Japan.

MGM is believed to have suffered a 1992 operating loss of about \$80m, or half the previous year's deficit.

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INTERNATIONAL CAPITAL MARKETS

UK GILTS

The pitfalls of peering into the future

"THE result of leaving the European exchange rate mechanism, combined with large cuts in interest rates, would be a fall in the pound probably unprecedented in the last 40 years... And quite soon interest rates would have to go back up again - to much higher levels than they are today." - Mr Norman Lamont, UK Chancellor of the Exchequer, July 10 1992.

RECENT events in the gilt market have underlined the pitfalls of peering into the future. Not only have short-term interest rates fallen since Britain was forced to leave the ERM last September, but the same trend has been apparent for long-dated gilts which are more important in determining long-term borrowing conditions.

The events of the past six months illustrate that the economic theory behind the Chancellor's speech to the European

Policy Forum last July was extremely flimsy. They also indicate the degree to which the environment for international bond markets has improved, due to slow growth and generally weak inflationary pressures in many parts of the developed world.

Even though last week's yields for most classes of gilts moved up ahead of this week's biggest-ever gilt auction, the market has performed far better in recent months than most people in the Treasury and the Bank of England appear to have expected last autumn.

Mr Mervyn King, the Bank's economics director, spelled out in a speech last week how official thinking has shifted. "Departure from the ERM led to sharply lower expected interest rates in the short run."

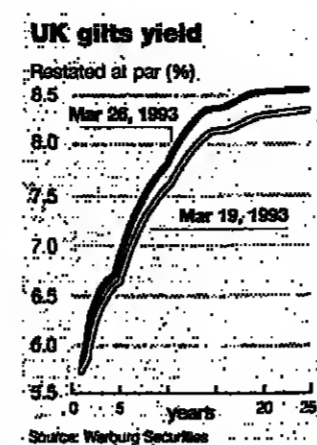
By contrast, rates in the long run were expected to be higher than there was, suggesting that that there was some loss

of counter-inflationary credibility from our [ERM] exit. But this loss was small, and since then there appears to have been some restoration of long-run credibility."

Since the ERM exit, bank base rates have come down from 10 per cent to 6 per cent. Ten-year gilt yields have dropped from 9.1 per cent to 7.7 per cent, while yields for 25-year bonds have moved from 8.8 per cent to 8.5 per cent.

Over the same period, the difference between yields for 10-year gilts compared with 10-year German government bonds has come down from about 1.5 percentage points to about 1.1. This indicates international investors have reduced the extra "risk premium" they demand for holding UK securities as opposed to German ones.

The move to lower gilt yields has partly reflected the shift in this direction for virtually all



the main bond markets since the autumn. It also underlines reduced worries about price pressures in the UK economy over the next year or so, together with only muted concern about the level of gilt issues needed to finance the growing public sector borrowing requirement.

Meanwhile, buying pressure for gilts has been helped by the more resilient tone to sterling in recent weeks.

The pound gained 1 pfm on Friday to close against the D-Mark at DM2.43, some 10 pfm up from its DM2.35 level at the beginning of the month.

Over the next few months, many bond specialists expect gilt prices to fall with a consequent rise in yields, as the implications of the expected £50bn PSBR in the financial year beginning next week sink in.

Such thinking was a factor behind the 15 basis point increase in yields at the long end of the gilt market last week, with attention focusing on the £30bn auction next Wednesday of a new class of 20-year stock - the 8 per cent bond due in 2013.

News of the amount of stock due to be auctioned by the Bank led to some technical switching down the yield curve, leading to a price fall on the week of about 2 points as measured by the June gilt future.

The reduction in prices probably augurs well for the success of the auction - the first in a series due roughly once a month over the coming year - as it increases the probability that foreign and domestic buyers will want to buy gilts.

Peter Marsh

US MONEY AND CREDIT

Fears of inflation continue to haunt bond investors

LAST week was not a good one for the US Treasury bond market. Investor sentiment continued to be increasingly bearish, the price of the benchmark 30-year Treasury bond fell by more than one and a half points on the week and fears about inflation were still haunting the market.

Bond investors were in the last few weeks convinced themselves - albeit in a rather artificial and perhaps even mistaken manner - that they were starting at a sell-off.

Since mid-March, when fears of inflation were rekindled by statistics that in retrospect seem misleading, the market has been in a distinctly sour mood.

Last week this worsened after professional dealers ended up holding the bulk of more than \$26bn worth of new two and five-year Treasury notes that were auctioned.

The malcontents of the market prevailed so substantially that it turned out to be of little consequence when, last Thursday, the Senate approved President Clinton's deficit-reducing budget package faster than had been expected.

Bond prices continued to slide on Friday and the only explanation is that all the good news about the deficit reduction measures and prospects

for economic recovery had already been priced into the market back in January, at the time of Mr Clinton's state of the union message.

Ms Kathleen Camilli, chief economist at Maria Fiorini Ramirez, the bond market advisory firm, reckons the perceptions of both faster growth and higher inflation have been overdone.

She, like other economists, says the reason is that some of the recent consumer price and producer price statistics overstate inflationary pressures. "In reality, inflation is still running at about 3 per cent annually and it will continue to be held down by global competitive pressures and moderate wage gains."

Mr Philip Braverman, DKB Securities chief economist, takes a similar view: "For the moment the market is responding to misleading suggestions that the economy is strengthening, that inflation is mounting and that credit growth is beginning to accelerate." In fact, according to Mr Braverman, credit is still constrained and inflation will dissipate with a renewed economic slowdown.

Since the February employment report was released on March 5 the bond market has been functioning in a trading range of yields between 6.75

per cent and 6.92 per cent on 30-year paper. On Friday, the price of the 30-year Treasury bond was 102½ to yield 6.94 per cent, compared to a price of 103½ and a yield of 6.81 per cent a week before. The current yield is the highest level since January.

It didn't help matters that last week's auction of \$15.25bn of two-year notes and \$11.5bn of five-year notes put the paper mainly in the hands of professionals. Retail buyers remained on the sidelines.

This week the market will focus on the new unemployment report that is due to be released on Friday. Ms Camilli forecasts an unchanged unemployment rate of 7 per cent and the addition of 137,000 payroll jobs for the month. The rise of 365,000 such jobs, but this number will probably be revised downward by about a sixth.

Mr Braverman argues that Treasury bond investors should not only reverse their self-off mentality, but expect lower yields in the near term. However, this will depend on other factors such as the first quarter GDP report, to be released at the end of April, and the Treasury's plans for its May refunding operation, to be announced in early May.

Alan Friedman

AUSTRALIAN BONDS

Budget deficit worries bolster yields

A BOUT of nervousness struck the Australian government bond market last week as it became clear that the re-elected Labor administration and the Reserve Bank are heading for a disagreement about the growing federal budget deficit.

The unease sparked a wave of selling on Friday which raised yields across the board. The yield on the October 2002 Treasury bond rose 20 basis points to 7.93 per cent, that on the September 1998 bond increased by 10 basis points to 6.38 per cent, and 90-day bank bills finished two points higher at 5.34 per cent.

The sell-off interrupted a sustained rally which had cut the yield on the 10-year bond from around 9 per cent in mid-January to just over 7.5 per cent on March 19.

The rally was triggered by a catalogue of factors, including a reduction in inflation to an OECD low of 0.3 per cent; signs that economic growth is beginning to pick up; receding prospects of a balance of payments crisis; and a firmer Australian dollar following cuts in

overseas interest rates.

The announcement of an early election, subsequently won by the incumbent Labor Party, also helped by eliminating political uncertainty and increasing the prospects of a cut in official rates, which eventually materialised last Tuesday.

In the event, the Reserve Bank restricted the easing to half a percentage point, disappointing the equities market, but in line with expectations in the bond market which had marked down the yield on 90-day bills to 5.26 per cent before the announcement.

The rally outlook dimmed on Friday, after Mr John Dawkins, the finance minister let it be known that he regarded the budget deficit as a less important issue than the need for growth to reduce unemployment from its near record level of 11.1 per cent.

Mr Dawkins' view was in stark contrast to a warning issued earlier in the week by Mr Bernie Fraser, the Reserve Bank governor, that the deficit must be reduced over the medium term to provide room

for an increase in private investment.

The finance minister was presumably aware of the impact his reported views were likely to have on the bond market, since a similar outbreak of concern about perceived fiscal laxity after his August 1992 budget pushed the 10-year bond yield from about 8.3 per cent to more than 9 per cent.

This time round, the market wanted rapid confirmation from the government that it remains determined to reduce the deficit, which is forecast at A\$15.9bn in the year to June. "An explanation is needed," said one trader. "If this guy is serious, then bonds should not be at current levels."

However, Mr Dawkins failed to clarify his reported views, leaving the market stewing over forecasts by business economists that the deficit could rise to A\$20bn next year unless urgent action is taken.

Ms Ivana Bottini, an economist at Citibank in Sydney, says the market's main fear is that an expansionary fiscal pol-

icy risks triggering a sharp rise in domestic consumption, a current account crisis and a rebirth of inflation.

Ms Bottini believes these fears are exaggerated in view of the sluggishness of Australia's recovery from the 1990-91 recession.

However, they raise the prospect that Mr Fraser might feel constrained to raise interest rates to keep inflation low and head off overseas pressure on the Australian dollar. "The optimistic view is that Mr Dawkins will take sufficient action in his August budget to convince the markets that the government is serious about restraining inflation and balancing the federal books. That would lay the groundwork for a further rally across the board."

But the finance minister's lack of concern suggests that he intends to stand by his view that the deficit will disappear as growth accelerates.

Friday's events suggest that the market does not believe him.

Kevin Brown

BANQUE NATIONALE DE PARIS

US\$500,000,000

Unrated Subordinated Floating Rate Notes

Notice is hereby given that the rate of interest for the period from March 29, 1993 to September 29, 1993 has been fixed at 3.3875 per cent per annum. The coupon amount due for this period is US\$172,14 per US\$10,000 denomination and US\$1,731.39 per US\$100,000 denomination and is payable on the interest payment date September 29, 1993.

The Fiscal Agent

Banque Nationale de Paris

(Luxembourg) S.A.

US\$200,000,000

BATIC

Guaranteed Floating Rate

Notes due 1996 with

Guaranteed Floor Warrants

For the period from March 29, 1993 to

September 29, 1993 the Notes will carry

an interest rate of 5.25 per annum with

an interest amount of US\$10.63 per

US\$100,000 Note.

The interest amount per Floor Warrant

tranche A is US\$10.63.

The interest amount per Floor Warrant

tranche B is US\$10.63.

The relevant interest payment date will

be September 29, 1993.

Agent Bank

Banque Paribas Luxembourg

Société Anonyme

NEWBURY

Building Society

Interest Rate Charge Notice

TESSA T Type:

New rate will be 6.45%

from 1.4.93

Head Office: 17/20 Bartholomew

St. Newbury, Berkshire RG14 5LY

(0635) 43676

CITIBANK

STOCKLEY HOUSE LIMITED
(a single purpose Jersey company)

has acquired

STOCKLEY HOUSE
130 Wilton Road, London SW1
a 68,500 sq ft office investment

for

£26,550,000

Financed by

BANK OF SCOTLAND

This transaction was initiated by the equity placed, and the bank finance arranged

by

THE CAPITAL TRUST GROUP

CAPITAL TRUST LIMITED CAPITAL REAL ESTATE LIMITED

49 Mount Street
London W1Y 5RE

Tel: 071- 491 4230
Fax: 071- 499 0524

Notice of Redemption to the Holders of

LEO 1 PLC

Class A1, Class A2 and Class B

Mortgage Backed Floating Rate Notes Due 2035

NOTICE IS HEREBY GIVEN that, pursuant to Condition 5(C) of each class of Notes, the Issuer has determined the following mandatory redemption details:

Class A1 Principal Payment per Note £3,700

Principal Amount Outstanding £76,360,000

Pool Factor 0.92

Interest Payment Date April 1, 1993

There will be no redemptions in respect of Class A2 and Class B Notes.

LEO 1 PLC

Dated: March 29, 1993

U.S.\$200,000,000

Floating Rate Subordinated Loan

Participation Certificates due 2000

Issued by Yamachi International (Deutschland) GmbH

for the purpose of funding and maintaining a subordinated loan to

The Hokkaido Tokai Bank, Limited

In accordance with the provisions of the Loan Agreement, notices are hereby given that for the three month interest period from March 29, 1993 to June 29, 1993 the Loan Participation certificates will carry an interest rate of 3.55% p.a. and the Coupon Amount per U.S.\$250,000 nominal of the Notes will be U.S.\$2,268.06.

March 29, 1993, London

By: Citibank N.A. (Issuer Services), Agent Bank

CITIBANK

FT/ISMA INTERNATIONAL BOND SERVICE									
USA		CANADA		EUROPE		ASIA		OTHER	
Instrument	Yield	Instrument	Yield	Instrument	Yield	Instrument	Yield	Instrument	Yield
10YR TREASURY	6.80	10YR TREASURY	6.80	10YR TREASURY	6.80	10YR TREASURY	6.80	10YR TREASURY	6.80
20YR TREASURY	7.20	20YR TREASURY	7.20	20YR TREASURY	7.20	20YR TREASURY	7.20	20YR TREASURY	7.20
30YR TREASURY	6.94	30YR TREASURY	6.94	30YR TREASURY	6.94	30YR TREASURY	6.94	30YR TREASURY	6.94
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115YR TREASURY	6.75	115YR TREASURY	6.75	115YR TREASURY	6.75	115YR TREASURY	6.75	115YR TREASURY	6.75
117YR TREASURY	6.75	117YR TREASURY	6.75	117YR TREASURY	6.75	117YR TREASURY	6.75	117YR TREASURY	6.75
119YR TREASURY	6.75	119YR TREASURY	6.75	119YR TREASURY	6.75	119YR TREASURY	6.75	119YR TREASURY	6.75
121YR TREASURY	6.75	121YR TREASURY	6.75	121YR TREASURY	6.75	121YR TREASURY	6.75	121YR TREASURY	6.75
123YR TREASURY	6.75	123YR TREASURY	6.75	123YR TREASURY	6.75	123YR TREASURY	6.75	123YR TREASURY	6.75
125YR TREASURY	6.75	125YR TREASURY	6.75	125YR TREASURY	6.75	125YR TREASURY	6.75	125YR TREASURY	6.75
127YR TREASURY	6.75	127YR TREASURY	6.75	127YR TREASURY	6.75	127YR TREASURY	6.75	127YR TREASURY	6.75
129YR TREASURY	6.75	129YR TREASURY	6.75	129YR TREASURY	6.75	129YR TREASURY	6.75	129YR TREASURY	6.75
131YR TREASURY	6.75	131YR TREASURY	6.75	131YR TREASURY	6.75	131YR TREASURY	6.75	131YR TREASURY	6.75
133YR TREASURY	6.75	133YR TREASURY	6.75	133YR TREASURY	6.75	133YR TREASURY	6.75	133YR TREASURY	6.75
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137YR TREASURY	6.75	137YR TREASURY	6.75	137YR TREASURY	6.75	137YR TREASURY	6.75	137YR TREASURY	6.75
139YR TREASURY	6.75	139YR TREASURY	6.75	139YR TREASURY	6.75	139YR TREASURY	6.75	139YR TREASURY	6.75
141YR TREASURY	6.75	141YR TREASURY	6.75	141YR TREASURY	6.75	141YR TREASURY	6.75	141YR TREASURY	6.75
143YR TREASURY	6.75	143YR TREASURY	6.75	143YR TREASURY	6.75	143YR TREASURY	6.75	143YR TREASURY	6.75
145YR TREASURY	6.75	145YR TREASURY	6.75	145YR TREASURY	6.75	145YR TREASURY	6.75	145YR TREASURY	6.75
147YR TREASURY	6.75	147YR TREASURY	6.75	147YR TREASURY	6.75	147YR TREASURY	6.75	147YR TREASURY	6.75
149YR TREASURY	6.75	149YR TREASURY	6.75	149YR TREASURY	6.75	149YR TREASURY	6.75	149YR TREASURY	6.75
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165YR TREASURY	6.75	165YR TREASURY	6.75	165YR TREASURY	6.75	165YR TREASURY	6.75	165YR TREASURY	6.75
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209YR TREASURY	6.75	209YR TREASURY	6.75	209YR TREASURY	6.75	209YR TREASURY	6.75	209YR TREASURY	6.75
211YR TREASURY	6.75	211YR TREASURY	6.75	211YR TREASURY	6.75	211YR TREASURY	6.75	211YR TREASURY	6.75

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Eurobond issuance sets record in first quarter

NEW issues in the international bond market reached a record high in the first quarter of this year, reflecting a favourable environment of falling interest rates and an increase in funding requirements, especially from sovereign borrowers.

According to provisional figures from Euromoney Bondware, new Eurobond issuance for the first quarter to March 26 stood at \$115.2bn, well above the previous record high of \$94.5bn achieved in the same quarter last year. New issuance in the first three months of this year represented 42 per cent of the record \$274.4bn raised in the whole of 1992.

Syndicate managers do not believe that new issuance will continue at the same pace in the second quarter, unless there is another currency crisis in Europe. That would prompt European central banks to borrow in foreign currencies to fill up their reserves once again.

Many of the larger borrowers, especially the sovereign names, are believed to have achieved between 40 per cent and 60 per cent of their

1993 funding requirements already in the first quarter.

"The new issuance calendar is likely to be much more opportunistic to the second quarter," one syndicate manager said.

Syndicate managers said that the high volume in the first quarter is closely linked to the rally seen in bond markets across the world, fuelled by expectations of lower interest rates, especially in Europe.

These hopes have been fulfilled by the Bundesbank's decision in recent weeks to lower its interest rates, which has in turn eased the tension between member currencies of the European exchange rate mechanism (ERM).

Falling interest rates have coincided with a large rise in borrowing needs among European countries, either to fund over-growing public deficits or to replenish foreign exchange reserves depleted by heavy intervention in the currency market to shore up their respective currencies.

The Eurodollar sector of the international bond market continued to be the most active in the first quarter, accounting for 38.8 per cent of the total volume compared with 28.2 per cent in the first quarter of last year.

The volume figures partly reflect the growing popularity of global bond issues, a concept pioneered by the World Bank in 1983.

The process of offering bonds simultaneously in the US, Europe and Asia Pacific allows borrowers to raise larger sums and to place the paper at the best possible price.

So far this year, dollar-denominated global bond issues amounting to \$8.75bn have been launched by the World Bank, the Province of Ontario, the Republic of Finland, Ford Motor Credit Company, and the Kingdom of Sweden.

Eurobond volume in D-Marks rose to second place or 20.2 per cent of total issuance in the first quarter, from fourth place or 10.7 per cent in the first quarter of 1992. This reflects the marked increase in demand for D-Mark paper from investors seeking a safe haven during the period of ERM currency volatility.

At the same time, the collapse of

the Ecu market meant that the D-Mark sector was one of the few areas of the Eurobond market which offered sufficient liquidity to borrowers needing to raise large amounts.

The volume of new Ecu bonds remained low at the equivalent of just \$1.9bn, compared with \$14.6bn in the first quarter of 1992, in spite of efforts by the French government and some of the European Community agencies to revive investor interest in Ecu-denominated paper.

Favourable arbitrage opportunities, as borrowers moved to reduce their funding costs by borrowing in one currency and swapping into another, were the main reason for the big increase in Canadian dollar Eurobonds this quarter.

Syndicate managers estimate that a large part of the equivalent of \$14.9bn worth of Canadian dollar Eurobonds raised so far this year – up from \$4.4bn at the same stage last year – has been swapped into other currencies.

The Eurosterling sector of the international bond market rose up the volume table, as an increasing

number of domestic and international borrowers decided to lock into the lowest interest rates that the UK has seen since the 1970s.

New issuance in sterling jumped to 10.8 per cent of the total volume in the first three months of this year from 6.7 per cent in the same period last year.

The sector saw a record for a single transaction, as Abbey National raised \$550m through an issue of 10-year Eurobonds, beating the previous record of \$300m held by the Kingdom of Sweden.

Apart from the Ecu sector, the other main loser in the first quarter has been the European area of the international bond market, as issuers were discouraged from borrowing in yen due to its appreciation against other currencies.

New issuance to yen dropped to the equivalent of \$10.9bn from \$12.2bn in the year-to-date period, while its share of the total volume fell to 9.5 per cent from 14.4 per cent.

Antonia Sharpe

RISK AND REWARD

Questions over growth of banks' off-balance sheet exposure

THE over-the-counter derivatives markets may continue to expand but the off-balance sheet credit exposure of banks involved in them has ceased to grow.

If anything, off-balance sheet risks shrank last year. That is the conclusion to be drawn from the recent accounts of three of the largest US commercial banks.

Citibank, Bankers Trust and J.P. Morgan are among the half-dozen or so of the biggest US banks in the over-the-counter markets, alongside Chemical Bank, BankAmerica and Chase Manhattan. Notes to their 1992 accounts show the pace at which their derivative portfolios are growing, but in a way that is not adding to their real exposures – at least, according to the banks' own measurement of those risks.

Between them, the three banks were involved in interest-rate related derivatives with a notional value of over \$2,000bn at the end of 1992, up from under \$1,500 a year before. However, the implicit credit risk in these instruments actually fell, from \$26.1bn to \$22.9bn.

The reason? The amount at risk is not directly related to the scale of the contracts, but to the extent to which each contract is showing a gain. In other words, if a counterparty stopped paying, say, the fixed-rate leg of an interest swap agreement, the scale of the loss would depend on how profitable the swap has become to the bank.

If the payments were at 6 per cent compared with a market interest rate of 5 per cent, then the bank would face a cost from the lost income stream. That lost income, discounted back to present value, is the replacement cost of the contract. The static or falling credit exposure of the banks last year suggests that the income they are receiving on the average interest rate contract is closer to market levels than a year before. In volatile markets, these credit figures could rise or fall sharply as the gain on particular contracts rises or falls.

According to a recent joint report from the US Federal Reserve, Federal Deposit Insurance Corporation and Office of Comptroller of the Currency, most of these risks are concentrated in a small number of

large financial institutions which have sophisticated ways of measuring and controlling their derivatives exposures. Their report – Derivative Product Activities of Commercial Banks – raises none of the concerns over the growth of the derivative markets seen in some official quarters.

A similar picture – of rising trading volumes but static credit risk – emerges from foreign exchange-related derivatives. The three banks added about \$400bn of exchange-related derivatives in terms of notional value, taking the total to \$1,800bn at the end of 1992. The credit risks associated with these contracts edged down to \$400m.

Taking the banks as a group, the growth in volume, by about a third, was consistent across most of the different exchange and interest rate products – swaps, options, futures and forwards. However, there were sharp differences between the banks in terms of which instruments each had been most active in.

● The notional value of J.P. Morgan's interest rate swap portfolio jumped to \$360bn at the end of 1992 from \$250bn a year before.

● Options were the fastest-growing interest rate product, with the outstanding amounts jumping to \$670bn from \$390bn. Also, Bankers Trust's involvement in interest rate futures and forward contracts soared to \$245bn from \$75bn.

● In keeping with its strong position in foreign exchange, Citibank's outstanding forward contracts and futures in the exchange markets leapt by \$300m to nearly \$800bn.

● The growth of equity and commodity derivatives was confirmed by J.P. Morgan's disclosure that its outstanding notional amounts in these markets had risen to \$38.5bn from \$18.3bn. Bankers Trust, though, reported that the notional value of "other contracts" (mainly equity and equity index options) had fallen to \$29bn from \$38bn.

At least some of these amounts will start to appear on US bank balance sheets from next year, following a Financial Accounting Standards Board ruling. According to Bankers Trust, had the ruling been in force now, it would have swollen the balance sheet by \$140m, hitting its ratio of equity to total assets.

Richard Waters

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %	Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS															
Nippon Yusen KK	100	Apr.1997	4	1.875	100	Nikko Europe	-	Lea 1993	40.5	Jul.2005	4.15	(p)	100.25	J.P. Morgan Securities	7.189
Kaiser Electric Railway	200	Apr.1997	4	1.825	100	Nomura International	-	RITZ Canada	150	Dec.1998	5.68	7.25	100.219	Barclays de Zotte Wold	7.958
Rockwell Holdings	150	Apr.2000	7	2.75	100	Swiss Bank Corp.	-	London Electricity	100	Mar.2003	10	8	100.27	S.Montagu/S.G. Weinberg	7.189
Abbey Nat./Trust Services	250	Apr.1996	3.02	4.75	101.05	JP Morgan Securities	4.370	Billerica Bldg.Society	25	Feb.1996	3.84	(q)	99.55	NatWest Capital Markets	-
Barclays Nat./Trust Services	175	Apr.2000	7	8.125	99.7205	Barclays Nat. Int.	8.190	CANADIAN DOLLARS							
Chemical Bank Corp.	100	Apr.2003	10	(f)	99.875	Morgan Stanley Int.	-	Ontario Hydro	1.5bn	Mar.1996	5	7.25	98.7	G.Sachs/JP/PRC/Scotia	7.587
Chemical Bank Corp.	80	Apr.1998	5	11	99.4	JP Morgan Securities	11.160	Bayreuther Hypothek	100	Nov.1998	3.5	7	100.5	Montrose Bank	6.816
Cyprusbank	80	Apr.1998	5	8.25	99.8	Citibank International	8.840	Kingdom of Norway	800	Oct.1998	5.5	7.25	100.845	EU Int'l Partners	7.045
SCM Barclay's Banco de Brazil	50	Oct.1995	2.5	11	98.47	ING Bank	11.248	Euroclear	125	Apr.1998	5	7.125	101.135	Goldman Sachs Int.	6.852
Banco de Portugal	50	Oct.1995	2.5	10	97.87	Sotheby's Int.Bank	11.093	European Investment Bank	300	Apr.2003	10	7.75	101.135	J.P. Morgan Securities	7.584
Barclay's Bank	150	Oct.1998	5	10.5	98.895	CSFB	10.598	Mortgage Bank of Denmark	150	Apr.1996	5	7.375	101.071	Salomon Brothers Int.	7.113
Banco do Brasil	100	Apr.1998	5	10.5	98.895	CSFB	10.598	Province of Newfoundland	150	May.2003	10	6.75	100.425	ScotiaBank Ltd.	8.885
Sam Yang Co. (China)	40	Apr.1998	5	4	100	CSFB	-	Deutsche Bank	100	Sep.2002	5.5	(f)	(f)	Deutsche Bank London	-
Banco Botino (Singapore)	40	Oct.1995	2.5	10.375	98.735	Merrill Lynch Int.	10.500	ITALIAN LIRA							
Bank of America	80	Apr.1998	5	10.5	98.895	Deutsche Socz.Bank	10.500	European Investment Bank	300bn	Apr.1998	5	10.5	101.625	Credito Italiano	10.071
AT&T	150	Apr.1998	5	6.625	101.305	CSFB	6.321	International Finance Corp.	200bn	Apr.1998	6	10.85	101.26	Banco di Roma	10.337
Grupa Telekom	100	Apr.2000	7	6	100.825	Swiss Bank Corp.	5.242	PESETAS							
Grupa Telekom	100	Apr.1998	3	(h)	100	Chase Investment Bank	-	European Investment Bank	15bn	Apr.2003	10	11.25	101.84	Banesto	10.972
Grupa Telekom	100	Apr.1998	3	(h)	100	Chase Investment Bank	-								
Creditanstalt-Bankverein	75	Apr.1998	5	(h)	100.2	Creditanstalt	-								
YEN															
Suzuki Motor Corp.	200bn	Jul.1998	6.27	4.75	101.5	Nikko Europe	4.457								
Suzuki Motor Corp.	130bn	Jul.1997	6.27	4.35	101.5	Daiwa Europe	3.857								
Furukawa Co.	130bn	Jul.1997	4.27	4.35	101.75	Yamashita Int.(Europe)	3.944								
Mitsubishi Petrochemical Co.	200bn	Aug.2000	7.28	4.75	101.75	Nikko Europe	4.458								
D-MARKS															
Metalgesellschaft France	300	Apr.2000	7	7	101	Deutsche Bank	6.816								
NatWest Finance	950	Apr.1998	5	8.5	124	Deutsche Bank	-								
FRENCH FRANCS															
Soc.G&A.Offshore	300	Jun.2003	10	(f)	100.875	Société Générale	-								
ESTERLINGS															
Bank for Dutch Municipalities	100	Nov.1998	5.59	7.25	99.89	NatWest Capital Markets	7.258								
Bank for Dutch Municipalities	120	Apr.2000	7	7.375	100.142	Barclays de Zotte Wold	7.348								
Legal and General Group	150	Apr.1998	15.06	6.75	100	CSFB	-								
Legal and General Group	150	Apr.1998	15.06	6.75	100	CSFB	-								

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5.61	
30	
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14.00	
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34.50	
10.16	
72.55	
11	
10	
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34.50	
82.80	
62.75	
23.16	
5.15	
74	
40.50	
25.70	
17.75	
22.75	
73.00	
24	
30.75	
15.50	

Paper	Price
2.31	100
0.88	100
0.34	100
0.07	100
0.84	100
0.90	100
1.42	100
1.81	100
2.48	100
0.39	100
1.19	100
1.08	100
0.46	100
1.78	100
0.40	100
3.40	100
0.85	100
3.85	100
3.45	100
0.50	100
5.54	100
3.12	100
0.95	100
2.10	100
0.89	100
0.90	100
4.82	100
5.50	100
2.46	100
2.90	100
2.30	100

7.90	3.84	Amoy Props	7.45
34	16.38	Bank East Asia ...	91.75

22.00
36.75
37
17
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18.30		
18.90		
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32.75	
4.50	
18.50	
17.90	
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Witt	
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SPECIAL INTRODUCTORY SUBSCRIPTION.

ical Times (Lampy) GmbH, Nibelungenplatz 3, 6000 Frankfurt

3.14
2.79
5.85
6.90
11.70
5
4.50
5.80
3
3.50
7.20



FAR MORE THAN FINANCE

[illegible]

FT MANAGED FUNDS SERVICE

JERSEY (REGULATED)									
Code	Company Name	Share Price	Dividend	Yield %	Market Cap	Assets	Liabilities	Equity	Notes
0001	ABC Fund Managers Ltd	1.25	0.10	8.0%	100M	100M	100M	100M	
0002	DEF Investment Corp	2.50	0.20	8.0%	200M	200M	200M	200M	
0003	GHI Global Services	1.80	0.15	8.3%	150M	150M	150M	150M	
0004	JKL Finance Group	3.00	0.30	10.0%	300M	300M	300M	300M	
0005	MNO Capital Partners	1.50	0.12	8.0%	120M	120M	120M	120M	
0006	PQR Asset Management	2.20	0.18	8.2%	180M	180M	180M	180M	
0007	STU Wealth Advisors	1.10	0.09	8.2%	110M	110M	110M	110M	
0008	VWX Private Equity	4.00	0.40	10.0%	400M	400M	400M	400M	
0009	YZA Venture Capital	1.30	0.11	8.5%	130M	130M	130M	130M	
0010	BCD Hedge Funds	2.80	0.25	9.0%	280M	280M	280M	280M	
0011	EFG Structured Finance	1.60	0.13	8.1%	160M	160M	160M	160M	
0012	HIJ Real Estate Trust	3.50	0.35	10.0%	350M	350M	350M	350M	
0013	KLM Commodity Funds	1.40	0.10	7.1%	140M	140M	140M	140M	
0014	NOP Energy Services	2.10	0.17	8.1%	210M	210M	210M	210M	
0015	QRS Technology Inc	1.90	0.16	8.4%	190M	190M	190M	190M	
0016	TUV Healthcare Group	2.70	0.22	8.1%	270M	270M	270M	270M	
0017	WXY Media Networks	1.70	0.14	8.2%	170M	170M	170M	170M	
0018	ZAB Telecommunications	3.20	0.28	8.8%	320M	320M	320M	320M	
0019	ACD Aerospace Corp	1.55	0.12	7.7%	155M	155M	155M	155M	
0020	BEF Chemical Industries	2.40	0.20	8.3%	240M	240M	240M	240M	
0021	GHI Food Processing	1.85	0.15	8.1%	185M	185M	185M	185M	
0022	JKL Textile Mills	1.65	0.13	7.9%	165M	165M	165M	165M	
0023	MNO Paper Products	1.75	0.14	8.0%	175M	175M	175M	175M	
0024	PQR Steel Works	2.00	0.16	8.0%	200M	200M	200M	200M	
0025	STU Glass Manufacturing	1.95	0.15	7.7%	195M	195M	195M	195M	
0026	VWX Rubber Products	1.80	0.14	7.8%	180M	180M	180M	180M	
0027	YZA Plastics Corp	1.70	0.13	7.6%	170M	170M	170M	170M	
0028	BCD Chemicals Ltd	2.30	0.19	8.3%	230M	230M	230M	230M	
0029	EFG Pharmaceuticals	3.10	0.26	8.4%	310M	310M	310M	310M	
0030	HIJ Biotech Inc	2.60	0.22	8.5%	260M	260M	260M	260M	
0031	KLM Medical Devices	2.90	0.24	8.3%	290M	290M	290M	290M	
0032	NOP Health Services	2.50	0.21	8.4%	250M	250M	250M	250M	
0033	QRS Nursing Homes	2.20	0.18	8.2%	220M	220M	220M	220M	
0034	TUV Hospice Care	2.10	0.17	8.1%	210M	210M	210M	210M	
0035	WXY Senior Living	2.00	0.16	8.0%	200M	200M	200M	200M	
0036	ZAB Retirement Funds	1.90	0.15	7.9%	190M	190M	190M	190M	
0037	ACD Pension Plans	1.80	0.14	7.8%	180M	180M	180M	180M	
0038	BEF Insurance Co	1.70	0.13	7.7%	170M	170M	170M	170M	
0039	GHI Reinsurance Ltd	1.60	0.12	7.7%	160M	160M	160M	160M	
0040	JKL Risk Management	1.50	0.11	7.3%	150M	150M	150M	150M	
0041	MNO Security Services	1.40	0.10	7.1%	140M	140M	140M	140M	
0042	PQR Consulting Group	1.30	0.09	6.9%	130M	130M	130M	130M	
0043	STU Management Firms	1.20	0.08	6.7%	120M	120M	120M	120M	
0044	VWX Advisory Services	1.10	0						

INVESTMENT TRUSTS - Cont.**INVESTMENT TRUSTS - Cont.**[illegible]

Shogun Inc	84	42 1/2	—	2.75Fol
Exxon Ag S&P Co	132	-3.2	—	—

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Warrants	9	-6.3	-
Western Co.	129	-4	8.1 MrJ

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3rd Gen 1988	108	-2.0	3.755 Oct
& G 2nd Dual Inc	133	-1.5	23.85 Jul

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City & County	85	-3.4	-	-
City of Dallas	84	-	-	-
City of Ft. Worth	81,861	-	-	-
City of San Antonio	81	-	-	-
City of San Diego	81	-	-	-
City of San Francisco	81	-	-	-
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City of Chicago	81			

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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Continued on next page

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MONDAY INTERVIEW

First in the fight for fairness

Herman Ouseley, new chairman of the Commission for Racial Equality, talks to Alan Pike

The Commission for Racial Equality will next week gain its first black chairman and, as a direct consequence, its first chairman to have suffered insults, harassment and violence because of the colour of his skin.

Herman Ouseley goes to the commission from the equally demanding job of chief executive of the London borough of Lambeth where, when appointed in 1988, he set another record as Britain's first black local authority chief executive.

Reaching the top of powerful organisations, public or private, is still relatively rare for members of Britain's ethnic minority communities. As someone who was born in Guyana, came to Britain as a child in 1977 and grew up as part of an immigrant family in south London, he shares a personal history with many of Britain's black people.

"My experiences are ones that are mirrored by many black people living in the inner cities, although I have been luckier than most in being able to side-step the difficulties that a lot of people have not been able to escape from," he says.

"I have suffered having bricks and bottles thrown through our window and other forms of racial harassment. I have been beaten up on my way home from school by groups of white youths and called a black bastard. Things have happened for no reason other than what I look like."

"I have failed interviews when I felt I should have been successful, but how could I prove it was discrimination? The majority of people who are discriminated against cannot prove it. I have been picked up by the police for no reason. I have sued the police for wrongful imprisonment and won."

Ouseley's origins give him an appreciation of the lives of ordinary black people in Britain that none of his predecessors in the CRE chairman's office - however committed to its goals of eliminating racial discrimination and promoting equality of opportunity - could totally share. "This does not mean that the new chairman will arrive determined simply to be a strident, one-dimensional advocate of black rights. Ouseley has a strong sense of balance, and it shows as he continues to review the influences that will help deter-

mine his style in the post. "At the other end of the spectrum, I have had the experience of being a black person in a powerful position. Other black people have expected me to be able to do things for them, while white people have thought I might possibly discriminate against them or overlook them. I have had to be seen to be fairer than fair to white people, while bending over backwards to help black people and avoid being accused of having sold out."

He takes over the commission at a difficult time. Unemployment, even when the economy is flourishing, is disproportionately high among Britain's ethnic minority communities; the recession is aggravating the problem and worsening other social tensions. Ouseley's annual budget at the commission will be limited to a modest £15m and the government plans no growth in real terms at least up to 1995-96. With only about 200 staff and limited funds, it must be selective in its activities, which include giving advice, legal assistance and mounting investigations into allegations of racial discrimination.

Under Sir Michael Day, its outgoing chairman, the CRE has demanded stronger race relations legislation but ministers have not rushed to oblige. Ouseley recognises the commission's limitations. "It is a creature of statute and the government controls its finances. People who think the CRE should be challenging every institutional practice in the world should realise it is impossible. But the commission none the less has a very important job to do in helping to promote a society based on respect, fairness, tolerance and justice."

He supports the commission's call for stronger race relations laws, saying that, while the present act had proved a powerful weapon, weaknesses have been exposed. In some respects, says Ouseley, the legal position on race relations was weakened during the 1980s by other legislation. He cites the 1983 Local Government Act, which he says gives local authorities insufficient power to ensure that contractors pursue adequate equal opportunities employment policies. The value of positive action programmes in overcoming discrimination in employment has, he says, been



'I have been beaten up...called a black bastard'

proved in the US. And he says black people find it "painful" that the powers of the Northern Ireland Fair Employment Commission to challenge discrimination on religious grounds in the province are tougher than those available on the mainland to attack racial discrimination.

A conversation about race relations with someone whose experience is in the inner cities inevitably touches the fragile, fraught question of relationships between the black com-

PERSONAL FILE

1946 Born in Guyana.
1957 Family migrated to Britain.
1963 Began work in local government town planning administration.
1981 Principal race relations adviser, Greater London Council.
1984 Assistant chief executive, London borough of Lambeth.
1986 Director of education and later chief executive, Inner London Education Authority.
1988 Chief executive, Lambeth.
1993 Chairman, Commission for Racial Equality.

munity and the police. Mr Paul Condon, the new Metropolitan Police commissioner, made racism the subject of his first public speech, voicing determination to outlaw it in both the community and the force. Ouseley, welcoming strides he believes the police service has made in recognising that it has problems in its relationships with black communities, again takes care to inject balance. "Equally, the minority communities have problems with regard to crime and attitudes. They have to face up to these. The law has to be upheld fairly, and people have got to recognise that if they are step-

ping outside it, they are likely to fall foul of the police."

How does the CRE's new chairman, a role model of black achievement, view the status of ethnic minority communities in Britain today? In the 36 years since Herman Ouseley and his family came to London alongside many other Commonwealth citizens, predictions about how the arrivals would influence their new society have varied widely. Prophecies of doom foretold streets alive with serious and repeated race riots; some optimists assumed that there would be an almost magical and effortless assimilation leading to equality of opportunity. Neither has happened. Ouseley compares individual examples of success with the scale of the problem still to be addressed.

"You see many Asian names on lists of very wealthy people in Britain. There are half a dozen black members of parliament compared with none five years ago. There are now about five black local authority chief executives, while I was the only one in 1988. But there are more racial attacks and there is more racial violence. There is a high proportion of black people on the unemployment register, in penal institutions and among the homeless. The real problem in race relations is that the worst afflictions affect the black community to a disproportionate level. Black people have a greater share of the misery and poverty in our society."

These are big issues, but Ouseley believes they can be tackled through specific, targeted action. He has a reputation as a strong and brave manager - his parting gift to Lambeth was a highly publicised report alleging fraud and corruption in the council, now being studied by the government - and he emphasises the

scope for clearly thought-out management action as a tool for improving race relations. In 1979, 6 per cent of Lambeth council's employees were from ethnic minorities. Now the figure is 48 per cent, reflecting the ethnic composition of the borough. He would like to see more employers in both the public and private sectors following the example.

"This would not have happened unless people in the organisation had been persuaded that it needed to happen. It required managerial will and political will."

"Many examples of success by members of Britain's ethnic minority communities - whether we regard them as token or significant - are as a result of institutions saying 'We cannot go on like this. We must make a positive effort.' There must be more positive efforts to create a structure where people who are being denied opportunities can play their full part in society, unconstrained by race."

Pessimism is a Euro-disease



MICHAEL PROWSE
on
AMERICA

Whenever I read a British newspaper, some politician seems to be trying to explain away economic hardship by referring to the "world recession". Don't believe it. Much of Europe admittedly is peculiarly depressed; lengthy queue lines seem to be accompanied nearly everywhere by weak political leadership and public apathy. There are few historical precedents for the continent's combination of ailments, which includes civil war in the former Yugoslavia, German xenophobia and a wave of corruption trials in Italy. Even France, labouring to defend the franc, was recently described by the Washington Post as "rarely in a more disgruntled mood".

In the 18th century, Europe could be forgiven for mistaking itself for the world, most of which it either owned or governed. But today it is ludicrous to pretend that the gloom and doom afflicting Europe is a global phenomenon. In much of the rest of the world the economic outlook is promising and the quality of political leadership as high - if not higher - than in recent decades. Outside Europe, many people are eagerly awaiting the 21st century, which they expect to mark a huge improvement on the past 100 war-torn years.

To put Euro-gloom in perspective, consider first the outlook for the US. The economy has been growing steadily for nearly two years following a brief and relatively mild contraction in the winter of 1990-91. Growth at an annual rate of nearly 5 per cent at the end of last year will not be sustained; but most forecasts are confidently predicting several years of growth at at least 3 per cent. The unemployment rate peaked at 7.7 per cent (far below the double-digits feared in Europe), is now 7 per cent and is expected to fall to about 5.5 per cent - effectively "full employment" - by the end of President Bill Clinton's first term.

Unlike the cautious British electorate, Americans had the courage to vote for change last November and are now benefiting from a revival of the legendary Yankee "can do" spirit. The Democratic Congress has moved swiftly to endorse the White House's economic plan, meaning that excessive budget deficits will be curbed, albeit slowly. Mr Clinton will shortly unveil his strategy for reforming the nation's flawed health-care system. This will be followed, probably next year, by proposals to improve the quality of US education and worker training.

If the outlook for the US is bright, it is positively dazzling in much of east Asia. The region remains politically immature, but during the 1980s it grew more than twice as fast as either Europe or the US. Most forecasters expect continued dynamism, even allowing for Japan's serious (but surely temporary) difficulties.

"Fuelled by China's economic boom," argues Merrill Lynch, the Wall Street brokerage, in a recent circular, "Asia-Pacific growth should reach almost 8 per cent in 1993 following 7 per cent last year." East Asia as a whole is now a more important trading partner for the US than Europe - which is one reason why the US media typically quotes the dollar in terms of yen rather than D-marks.

Euro-pessimists must also contend with improved economic performance throughout the developing world, which enjoyed economic growth of about 6 per cent last year and may grow nearly as fast this year. The world has not been

in, nor is heading for, a recession, let alone a depression. Even in industrialised countries, annual growth has not yet dipped below 1 per cent and will probably accelerate next year to more than 2 per cent.

Viewed from Washington, the gloom pervading Europe is puzzling. For four decades, the continent was divided by an Iron Curtain and needed the protection of a US military shield. Yet in the mid-1980s when the Kremlin was still building its stockpile of SS20 missiles and Berlin was a lonely outpost in communist east Germany, western Europe was far happier than today. It enjoyed political stability and economic prosperity and seemed prepared to make the modest sacrifices needed to secure the potentially huge benefits of greater economic and monetary integration. The reduced burden of military spending following communism's collapse and the enhanced opportunities for trade with the new democracies of eastern Europe ought to be creating a still greater regional prosperity rather than a torrent of mealy-mouthed complaints.

European politicians pretend that the world is facing intractable economic problems comparable with those of the 1930s. Sky-high unemployment and lakes of budgetary red ink are seen as all but inevitable. The success of east Asia and the US shows that this is hogwash. If Europe is in secular decline, it has only itself to blame; it has simply lost sight of the virtues - thrift, hard work, flexibility and risk-taking entrepreneurship - that underpinned its startling success in the 19th century.

With hindsight western Europe perhaps grew too comfortable in the cosy, controlled world created after the second world war, when its destiny was effectively in the hands of the US and the Soviet Union. On its own again for the first time since the inter-war years it is again showing a singular lack of political vision and will.

Wreckage of old socialism

Opinions differ on the reasons for the wreckage of the Socialist party in the French general elections last week. Some say they failed to hold down unemployment; some say they betrayed socialism both in their conservative economic policies, and in their luxurious corruption; and some blame the party's founder, President François Mitterrand, for all of the above, and for overplaying his hand, and for outstaying his welcome.

Yet whatever the reasons, the result of the election is so extreme, that it will have the effect of a political earthquake. The Socialists' colossal defeat may yet mark a paradigm shift in the dialectic of French politics, which in turn could have lessons for other democratic countries in Europe.

One thing the Socialists know for certain: they must start again from the bottom and from the beginning. The party cannot pretend to carry on as before, as if this were a little local difficulty; if it is to recover a significant role in French politics, it will need a new leader, a new message, and quite probably a new name as well.

Choosing a new leader has suddenly become urgent. President Mitterrand is totally identified with the party's rise and fall, and at the age of 76 he is in a poor position to help it recover; in any case, he may not want to try. Recovery can only come from a new leader, and that probably means a choice between Mr Michel Rocard, the party's "virtual" candidate for the presidency, and Mr Jacques Delors, president of the European Commission.



IAN DAVIDSON
on
EUROPE

A new leader will need a new message. In 1983 the Socialists tacitly abandoned most of the paraphernalia of unreconstructed socialism; after the election of 1988 they progressively abandoned the rest; but they have yet to come up with a new programme.

Mr Rocard has moved to grapple with the problem, by his sensational call for the creation of a centre-left movement, reaching from reformed Communists to moderate centrists; but he has yet to define the platform it would have.

There are essentially two reasons why the Socialists had to abandon the crude version of their creed. Old-fashioned class-based politics, the proletariat against the bosses, has long ceased to hold an adequate mirror to today's reality. What with mortgages and foreign travel, the decline of smoke-stack industries and the rise of the service sector, modern society has become more complex and less oppressive.

Second, no one believes in crude socialism any more. It was a disaster in the Soviet empire; it has failed whenever it has been tried in the west. Moreover, in 1983 the French Socialists had to choose

between crude socialism and Europe: they discovered to their dismay that they had no choice but Europe.

Socialists would claim that there is more to their message than the ideological excesses of nationalisation and the command economy. They remain committed to a distinctive set of social-moral concerns: protection of the underprivileged; social welfare, health, housing, education; the rejection of money and individual self-interest as dominant values. In short, some version of *liberté, égalité, fraternité*.

The problem is that these concerns may now be on the wrong side of the historic and geo-strategic wave. The traditional socialist canon focused on the fight against the unfair distribution of wealth; today's urgent need is wealth creation, and today's scourge is again structural unemployment. The socialist canon calls for social protection for the weak, the ill, the retired, the unemployed; today's problem is knowing how to pay for these things.

The first reason for the radical shift in today's priorities, is that the socialists have won the moral argument, at least in most of western Europe. Christian Democrats and Social Democrats both accept the general case for social solidarity; France's conservative parties would not dare suggest dismantling the welfare state. The unsolved problem is that demand for welfare is by its nature unlimited.

The second reason is the development of global markets. In a national economy, the exploited may be able to force a more favourable deal out of the exploiters; that option is

not available if the "exploitation" comes from other, more competitive, economies.

Last year, the Dutch Central Planning Bureau produced a range of forecasts for the next 25 years; one of the scenarios was for a trade crisis, with the world breaking up into three main protectionist blocs. It may not happen; but there is no denying that talk of protectionism is increasingly widespread.

If western Europe remains committed to liberal global trade, it will have to improve its competitiveness much faster than in the past. This means channelling much larger resources into education and training; the alternative strategy of driving down workers' wages might produce a Third World work-force, but it would still not enable them to compete with an advanced Asian economy.

Education and training will be slow to deliver. Meanwhile, competition will force the European Community to review either the budgetary costs of its welfare programmes, or the costly rigidities of its labour laws, or both. Moreover, welfare costs will rise steeply with the ageing of the population: in 1990 the over-64s represented 21 per cent of the population; by 2020 they will be 31 per cent.

This is not a cheerful prospect. It is especially uncheerful for a political leader who is trying to work out a new political message for the 1990s, and who still wants to think of himself as a Socialist.

* *Scanning The Future, Central Planning Bureau, SDU publishers, The Hague, 1992*

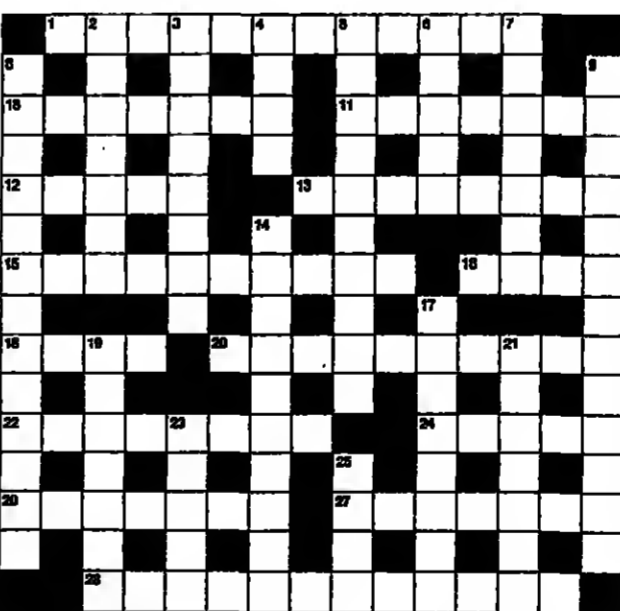
Of broking and jobbing the Pelikan's fond,
See how sweetly he puts your word onto bond.

Pelikan

JOTTER PAD

CROSSWORD

No.8,113 Set by GRIFFIN



- ACROSS**
- Works after a day and is OK (12)
 - Vessels in river stretch (7)
 - Ann switched to cutting material (7)
 - Order chief to be earlier (5)
 - One who is there at ten, running water (8)
 - Break about ten men in anger (10)
 - Ring coppers once someone starts scraps (4)
 - Sweetheart crazy about alcoholic drink (4)
 - Banned all mixes containing low drug (10)
 - One camping out of habit (8)
 - Had moved down about a quarter (5)
 - Jack and Mark refuse to vote (7)
 - Wet chaps love to sit around inside (7)
 - Learned men put little money into his student grants (13)
- DOWN**
- Uses fruit with one in (7)
 - Ringo knocked six-footer unconscious (8)
 - Wa left fellow standing and ran away (4)
 - Always loyal, notice missing lady (10)
 - One times union leader carrying in cat (5)
 - Terrible lie Eddy submitted (7)
 - Moody relief worker to alter name when wrong (13)
 - Making sense of an informal agreement (13)
 - I'm an individual student cancelling a cold (10)
 - Caution maid on upsetting mum (8)
 - It stars original painters, perhaps (7)
 - Continuous pole on end (7)
 - Are achievements within grasp (5)
 - Frost upset a Moslem chieftain (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday April 10.

Prices for electricity delivered to the premises of the electricity company and substation arrangements in England and Wales			
Period	Unit price	Unit price	Unit price
10 day period	10 day period	10 day period	10 day period
0000	15.00	15.00	15.00
0100	15.00	15.00	15.00
0200	15.00	15.00	15.00
0300	15.00	15.00	15.00
0400	15.00	15.00	15.00
0500	15.00	15.00	15.00
0600	15.00	15.00	15.00
0700	15.00	15.00	15.00
0800	15.00	15.00	15.00
0900	15.00	15.00	15.00
1000	15.00	15.00	15.00
1100	15.00	15.00	15.00
1200	15.00	15.00	15.00
1300	15.00	15.00	15.00
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2100	15.00	15.00	15.00
2200	15.00	15.00	15.00
2300	15.00	15.00	15.00
2400	15.00	15.00	15.00

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SINGAPORE 2

AS RECENTLY as 1980, there was no such thing as a Singaporean computer components industry. Today the island republic is the world's largest manufacturer of computer disk drives, accounting for more than half of world production, and a big supplier of a wide range of other computer peripherals, semiconductors and electronics equipment.

In the early 1970s, the textile industry accounted for some 17 per cent of manufacturing employment in Singapore. Now the figure is well below 10 per cent, and declining.

These are two examples of the extraordinary swirl of change that continues to invigorate the Singaporean economy. They help to illustrate how a country with no natural resources, a minuscule land area and a static indigenous workforce has managed to carve out its position as a leading competitive player in a number of international industries, from consumer electronics to oil refining and petrochemicals.

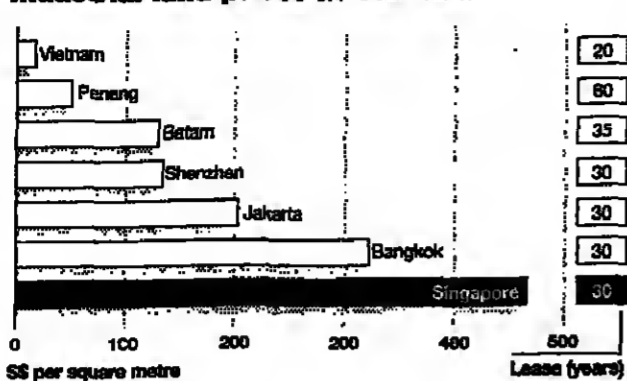
The Austrian economist Joseph Schumpeter would have recognised what is happening. Writing in the first half of this century, he called it "creative destruction" - the process of unremitting innovation and renewal in an economy affected by the free play of market forces. In Singapore's case, the market is the world, and it has exposed itself to - and benefited from - the full force of international competition by maintaining a stance towards foreign investment as open and unrestricted as you will find anywhere.

Some 3,000 multinationals have operations of some kind on the island, more than 750 of them in manufacturing. Foreign investors are as much as ever the motor of Singapore's development. Initially attracted by its low-wage workforce and by heavy public investment in an ultramodern infrastructure - for two decades investment has represented 35 to 40 per cent of annual gross domestic product, higher than in any other industrialised or industrialising country including Japan - they are constantly encouraged by government to spend on upgrading their plants with the latest technologies. The aim is to create a virtuous circle in which higher labour productivity earns higher wages, and low-wage, labour-intensive businesses either die or move offshore.

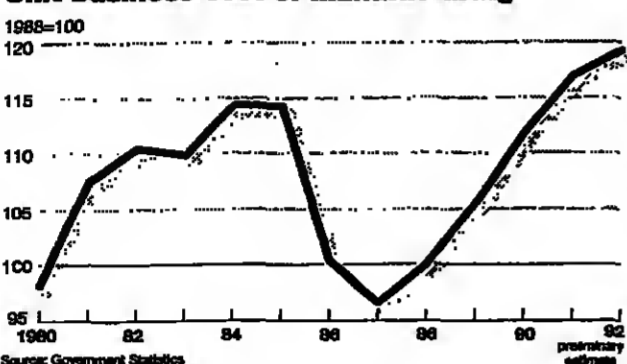
Andrew Gowers describes the business ethic that sucks in the cash

Investors' paradise

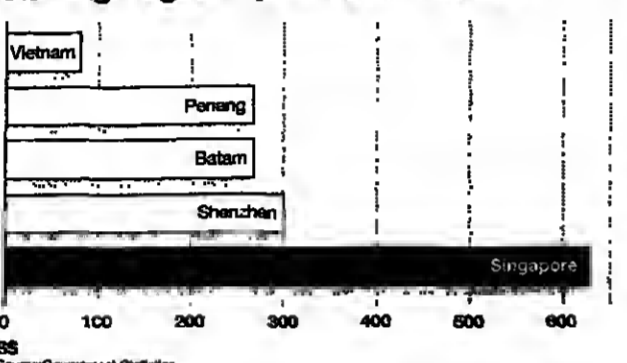
Industrial land prices in 1991/92



Unit business cost of manufacturing



Starting wages of production workers



Singapore is uniquely unselfish about preserving industries which have lost their competitive edge: the timber business, for example, once a local mainstay, is now virtually extinct, while textile manufacturing on the island has moved inexorably to the high-value end of the market while spinning off low-cost operations to Malaysia and other neighbouring countries.

Their place has been taken by productive, technology-driven industries such as consumer electronics, telecommunications equipment and precision engineering.

The last 20 years provide countless examples of this shift - as always, under the guiding hand of government bodies such as the Economic Development Board. Having established itself as an oil refining

and bunkering centre, Singapore moved into bulk petrochemicals and is now assiduously developing higher-value products such as specialty chemicals and pharmaceuticals.

The trick consists not just in attracting new investors: more importantly, it involves encouraging heavy investment by those already installed, so that technology companies such as Texas Instruments that came to Singapore in the early days have repeatedly upgraded their locally-manufactured product mix. And the search goes on: Singapore has remained especially alert to global changes in the consumer electronics industry. It is now positioning itself as an important production base for digital compact cassette players and notebook computers.

Mr Philip Yeo, the hyperactive EDB chairman and Singapore's industrial czar, reckons that every fresh investment dollar that comes to the island, two thirds represents spending by companies already in place. The increasing quality of those investments is evident from the pattern last year. Manufacturing investment commitments reached a record \$3.5 bn, 21 per cent up on 1991, and the prospective yield on those projects, in terms of gross value-added per worker, rose to \$240,173 - more than three times the existing average in the manufacturing sector.

This constant drive for higher value-added makes sense given Singapore's severe physical and demographic constraints. It is also getting more urgent all the time in view of the intensifying competition for investment among low-wage Asian economies, which are themselves gradually following Singapore "up the value chain".

To understand why, compare labour and land costs in Singapore with those elsewhere in the region. The starting wage for a production worker in Singapore is \$863 a month; in Penang, Malaysia, it is \$264; and in Vietnam it is \$90. In Singapore, a square metre of industrial land costs 10 times what it does in Penang and 30 times what it does in Vietnam. Unable to compete on wages,

land or on the size of its domestic market, Singapore has quite deliberately priced itself out of the business of low-cost manufacturing, partly for political reasons, the government will not prop up labour-intensive industries by allowing companies to import more foreign workers. Instead, it has been forced to develop alternative attractions to retain the loyalty of its multinational partners.

As Mr Goh Chok Tong, the prime minister, put it last year in terms that might be a corporate mission statement: "We must be competitive in combining the whole range of factors and produce a package that is better than what our competitors can offer. This requires hardworking and highly skilled workers, good management and government, a politically secure environment, good physical and social infrastructure."

It also requires us to be alert to changes in technology, investment and market trends. It means constant restructuring of our economy to have a mix of industries in which we are competitive."

What this means in practice was mapped out in a strategic plan produced by a committee of business and labour leaders, government officials and academics in October 1991. It recommended a series of measures aimed at improving the skills of the workforce, at encouraging companies to automate and shift labour-in-



On the Rapid Transit rail system: speed, youth and dynamism

tensive activities offshore, and at getting multinationals to think of Singapore as a managerial and service hub for South-east Asia rather than just a production base.

Specific moves in train include: ● Research and development. In co-operation with the multinationals, Singapore is now engaged in a big effort to boost R & D activities on the island. It has established a National Science and Technology Board to oversee a proliferation of research institutes in a wide variety of disciplines from microelectronics to biotechnology and by providing financial incentives, to double R & D spending to 2 per cent of gdp by 1995. In the same period, it wants to raise the proportion of scientists and engineers in the workforce to 40 per 10,000 workers from the present 28. That compares with R & D spending of 3 per cent of gdp in

Japan and 1.8 per cent in South Korea.

● Recruitment and training. The EDB is mounting a targeted recruitment drive overseas with a view to bringing engineers, computer scientists and other skilled manpower to Singapore from Europe, North America, Russia and other Asian countries including India. The aim is twofold: to pre-empt a looming skills shortage in the region as a whole, and to compensate for the fact that the government finds it difficult to lure Singaporeans into factory jobs as opposed to what they perceive as the more glamorous services sector. "We have to make a more concerted effort to recruit people now because the other countries in the region are growing," says Mr Supiah Dhanabalan, trade and industry minister.

In addition, Singapore is pitching to become a regional

training centre for multinationals in Asia. The US communications giant Motorola, for example, recently sent a team to train on the island from the plant it has established in China. The commercial spinoff for Singapore is obvious. "That way, I can sell more components," says Mr Yeo.

● Regional investment. Singapore's attempt to push multinationals' low-cost, lower-skill operations offshore is now accelerating. Its main focus is the so-called "Growth Triangle", an unusual initiative to foster economic integration between Singapore, the southern Malaysian state of Johor and Indonesia's nearby Riau islands.

The EDB actively encourages investment in Johor, and Singapore is collaborating with Indonesia's Salim group to build industrial parks on Batam and Bintan, two islands in the Riau group. Attracted by the prospect of working with Singaporean expertise and efficiency and Indonesian wages, more than 30 companies have taken space on Batam, and exports from the plants already operational are growing fast.

Here, too, the gains for Singapore far outweigh any concern about lost investment, for companies establishing operations in Johor or Batam generally do so in order to perform more sophisticated tasks in Singapore.

There cannot be many examples of an industrialising country actively encouraging foreign investors to go elsewhere. The fact that Singapore does is a measure of its confidence both in the increasing sophistication of its economy and in the enticing prospects for growth in the wider region.

Electronics profile: SGS-Thomson

On the crest of a wave

SINGAPORE is continually worried about losing its competitive edge. Nowhere is this more keenly felt than in electronics, which accounts for almost 40 per cent of total manufacturing output and more than 40 per cent of domestic exports.

Concern focuses on rising wage levels and insufficient growth in productivity. But Mr Milvoj von Somogy, head of Asia Pacific operations for the European electronics giant SGS-Thomson, disagrees.

"In Singapore we can work 365 days per year. That's not possible in Europe. It's not only costs - it's the quality of labour we have here as well. And despite rising wages our total labour costs here are between \$4 and \$6 per hour - that's not bad for the type of high tech work we are doing."

SGS-Thomson started low cost assembly operations in Singapore in 1989. In 1992 it built its first wafer fabrication plant and now produces about 100m pieces per month of various computer chips from its Singapore operations.

Though core technology development is still carried out in Europe, SGS-Thomson's Singapore operations now employ 1,500 to produce increasingly sophisticated so-called "front end" products. Another 3,200 are employed in "back end" operations in nearby Malaysia.

"Initially low labour costs brought us to this part of the world," says Mr Somogy. "Now we can source the bulk of our materials here, there is the expertise available and most importantly sales in this region are growing so fast it's a problem to meet demand."

Other electronics businesses tell a similar story. Companies that in the 1960s were assembling black and white TV sets have evolved to design and manufacture a comprehensive range of final products, sub-assemblies, components and

parts for both industrial and consumer electronics industries.

More than 250 electronics companies in Singapore produced an estimated \$331bn worth of goods last year, a 6 per cent rise over the 1991 figure. Products cover almost the entire electronics sector, from consumer goods to disk drives, semiconductors and printed circuit boards.

Singapore now accounts for about 50 per cent of total world output of computer disk drives, with about 18m unit drives valued at \$49bn produced last year. This represents an increase of 28 per cent in volume terms over the 1991 figure.

After an industry shakeout in 1991 and a dip in trade in the first half of 1992, overall industry growth surged by 18.9 per cent in the third quarter of the year, a trend which was continued through the end of 1992.

Strong growth is expected to continue through 1993, with an expected upturn in the US, Singapore's biggest export market, absorbing more than 40 per cent of total industry exports.

As the electronics industry has become more regionalised, Singapore has developed into the main electronics re-export centre in south-east Asia. Re-exports now account for about 25 per cent of Singapore's total electronics exports.

The electronics industry faces various challenges. Neighbouring countries - particularly Malaysia and Thailand - have successfully developed their own electronics industries and threaten Singapore's export competitiveness, particularly in consumer electronics. Singapore has continuously sought to upgrade its activities.

New electronics centres such as Penang in Malaysia are already tempting some companies to move certain operations out of Singapore. Some

employers complain of an increasing incidence of "job hopping" among electronics workers. There is also concern about government restrictions on importing labour and the costs incurred by a special foreign workers levy imposed by the authorities.

Electronics is still a sector overwhelmingly dominated by the multinationals. But more efforts are being made to integrate local concerns into the production process. The government recently set up an Institute of Microelectronics to assist the local electronics industry in spearheading research and development and to train skilled R & D personnel.

Despite some problems investor confidence in Singapore's electronics industry continues to be maintained. Investment commitments in the industry in 1992 reached \$31.4bn - more than 40 per cent of total investment committed.

Kieran Cooke

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Continued from Page 1

eldest son, Lee Hsien Loon, and Mr Ong Teng Cheong, both deputy prime ministers, were being treated for cancer. The news shocked Singaporeans since it had been widely presumed that the former, a tough but not especially popular chip off the old block known everywhere as "BG Lee" in deference to his military rank, was being groomed as Singapore's prime minister in the not too distant future.

The government insists "BG" Lee is responding well to treatment and will be back at his desk soon.

But if the illness were to remove him permanently from the scene, the reins of power would continue to be held by a group of men without an obviously charismatic leader. This is not an immediate problem. Mr Lee himself, now

70 but in apparently robust health, looks like being around for a good while longer. Mr Goh is an able administrator and is setting about trying to develop a more collegial - if not much more consultative - style of government.

But it does seem that, as it grows richer and better educated, as the generation that experienced the traumas of independence fades from the stage, and as income disparities widen, Singapore is becoming a more complex place to govern.

The fundamental questions are whether a society so regimented as Singapore's still is will develop the capacity both to nurture the creativity of its best and brightest and to channel the frustrations of the less privileged - and whether it will continue to adapt and prosper in a way that outlasts the man who founded and moulded it.

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centre for multiple Asia. The US... recently seen a... plant it has... China. The... off for Singapore... That way, I can...ponents," says...

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B actively encourage... at in Johor, and... collaborating with... a's Salim group... industrial parks... industrial, two... group. Attracted... of working... can expertise and... Indonesia... 30 companies... face on Batam, and... the plants abroad... are growing fast... ou, the gains for Singapore... at lost investment... is in Johor or... do so in order to... be sophisticated...ore.

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Behind the vibrant economic successes, frayed nerves are sometimes apparent, says Andrew Gowers

Sprinter at the front of the pack

LAST August, Singapore's *Business Times* newspaper received an unwelcome visit from officers of the government's Internal Security Department.

They questioned journalists, took away notebooks and computer files, and subsequently the paper's editor, Mr Patrick Daniel, was among four people charged under Singapore's official secrets act. His "crime": publishing a leaked preliminary estimate of the country's second quarter gross domestic product which showed annual growth to be lower than expected at 4.8 to 4.9 per cent.

With the trial of those accused still continuing, the precise explanation for this uniquely Singaporean story remains obscure. But the affair has taken its place in the public consciousness as a vivid reminder of the concern in the island state last summer over the economy.

Growth was falling after the blow to confidence delivered by the Gulf war in 1990-91, the US economy which is the principal market for Singapore's exports was anemic, the world consumer electronics industry on which a large chunk of Singaporean manufacturing depends was in a serious recession, and Singapore's attractiveness as a manufacturing location looked threatened by a sharp rise in unit labour costs.

To the government it all had an ominous ring: the last time there had been such a combination was in 1965, when Singapore experienced a serious recession - its only one since independence and an event seared into the minds of all Singaporeans.

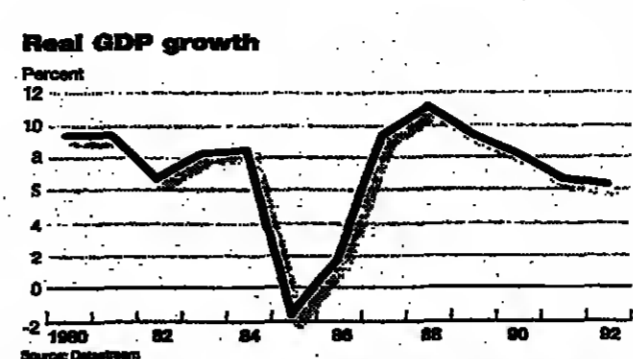
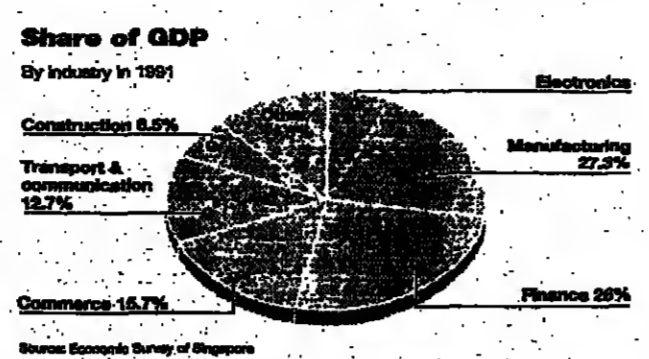
As it turns out, the fears were massively overdone. Growth has continued at a rate that the industrial countries can only envy, manufacturing output has recovered after a drop in the first quarter, exports are surging, the financial services sector has bounced back, the rise in labour and business costs has moderated, and foreign investment is still pouring in.

The government now reckons that the economy bottomed out in the third quarter of last year, and grew by 5.8 per cent for the year as a

revised upwards its estimate for this year's gdp to show expansion of 6 to 7 per cent. In all seriousness, government ministers call it Singapore's "soft landing".

The country's success in steering through the threat of a sharp slowdown and putting itself back on the path of more rapid expansion results from a mixture of luck and judgment.

In the first place, the contraction in 1991 and the first half of 1992 would have been much worse but for deft deployment of government funds to fuel a domestic construction boom. The construction sector grew by 18 per cent last year, aided by a burst of public spending on infrastructure such as roads, the port,



hospitals, schools and housing. Singapore remains in the fortunate position of enjoying a substantial budget surplus, which enables the government to turn the spending taps on or off at will.

Externally, strong growth in the south-east Asian neighbourhood also helped carry the Singaporean economy through the first half of 1992, enabling it to capitalise on its traditional role as a transport and communications hub. But the main motors for its subsequent acceleration were twofold:

● The unexpectedly strong recovery in America: non-oil exports to the US increased by an impressive 12 per cent in the second half. Although ministers do not expect perfor-

mance to be sustained at quite that level in 1993, the US economy should be strong enough to offset weakness in Singapore's European and Japanese markets.

● Electronics exports. As maker of around half the world's computer disk drives and of components for a wide range of consumer electronics products, Singapore is uniquely exposed to the international fortunes of these industries. Slowdown in the markets of the industrialised world and the apparent saturation of demand for certain consumer electronics goods spread gloom in the first few months of 1992.

Today, whereas computer manufacturers everywhere are

bleeding from a savage price war in personal computers, Singapore is benefiting from a resulting surge in demand for disk drives, integrated circuits and computer peripherals. And with new consumer electronics products beginning to pour back on to the market, it is poised to win a healthy slice of that action too.

Nevertheless, the worries being expressed last year have not vanished. The government frets constantly about maintaining Singapore's position in the contest for foreign investment, about the dangers of overheating in the labour and property markets, and about achieving a sustainable, as opposed to helter-skelter, rate of growth. It still has some rea-

son for concern. The most obvious is the unit cost of labour. Just a year ago, it looked as if a damaging gap was opening up between rapidly rising wages and much slower improvements in productivity: nominal wages rose by 9.2 per cent in 1991, productivity by a miserable 1.5 per cent. In the first quarter of last year, productivity actually fell by 0.9 per cent.

The picture has improved considerably since then: last year, wages grew by 7.5 per cent and productivity by an average of 3.1 per cent as manufacturing output recovered.

Nevertheless, with unemployment below 3 per cent of the workforce, there is precious little slack in the economy.

The government is working hard to keep business costs under control. In the budget, for example, Dr Hu announced a cut in corporate tax next year from 30 to 27 per cent, to be offset by the introduction of a 3 per cent goods and services tax (GST), and proclaimed the government's intention to get corporate taxes down to 25 per cent in due course.

But ministers are well aware that Singapore's constraints of space, manpower and resources will for the foreseeable future impose a natural limit on the rate at which they can afford to let the economy grow. "Our population is not growing, but if we can sustain productivity growth of 3-4 per cent we should be able to sustain 5-6 per cent economic growth," says Mr Supplis Dhanabalan, trade and industry minister. "Anything more would lead to overheating."

The real answer to such problems in the long term - enunciated every time a minister opens his mouth in public these days - lies not in further boosting the domestic economy but in capitalising on opportunities in the wider region. The challenge Singapore faces is to equip itself for a major investment drive into the rapidly growing economies around it in Asia, and in this task it has only just begun.

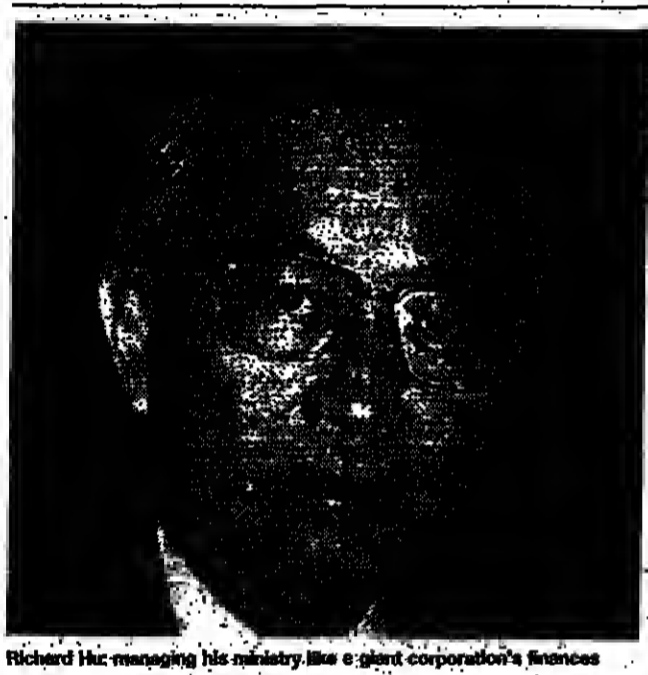
Lack of space, people and resources are the main constraints

any. Moreover, with the service sector playing an increasingly important role, it is becoming more difficult all the time to keep productivity rising in line with wages.

As Dr Richard Hu, finance minister, put it in his budget speech last month: "Efforts to improve productivity and

Dr Richard Hu, finance minister, is a rarity among politicians, says Kieran Cooke

Technocrat from the private sector



Richard Hu managing his ministry like a giant corporation's finances

DR RICHARD HU gives the impression of being that rarest of animals - an apolitical politician.

Though an MP since 1984, Dr Hu is first and foremost a technocrat, groomed in the private sector and eventually parachuted into high office. That was 10 years ago. "One thing with politics is the loss of personal freedom... I've been so long out of the private sector I can hardly remember what it was like."

Dr Hu, 66, gained his Ph.D. in chemical engineering from Birmingham University and went on to lecture in England before returning to Singapore

in 1960. For more than 20 years he was with Shell, rising to become chief executive of their operations first in Malaysia and then in Singapore.

Dr Hu's position would be envied by many of his colleagues round the world. Since the mid 1980s Singapore has been running budget surpluses. With foreign exchange reserves officially put at US\$40bn Singapore's fiscal position does not cause the finance minister too many sleepless nights.

Furthermore the nature of Singapore government - with its emphasis on a unified, corporate approach - allows Dr

Hu to manage his ministry in very much the same way as he would the finances of a giant corporation. "The political part of this job is much less intense than it would be in the UK or elsewhere," says Dr Hu.

Nonetheless Dr Hu shares the views of Singapore's top leadership when it comes to key policy issues. New tax structures were recently introduced, with corporate and personal taxes lowered. The central aim of the changes is to keep Singapore competitive.

"The competition for investment is going to be even greater in future. Hitherto closed economies are opening

up... protectionism is raising its head everywhere, there's a great shortage of capital. Making our investment climate more attractive is crucial."

extraordinary how Malaysia has grown its industrial sector so fast."

Dr Hu went to China in 1985 and returned again recently. "The change is amazing. The

Closed economies are opening up and competition for investment will be greater than ever"

Dr Hu is keenly aware of the changes taking place in the region, with Singapore's neighbours already nibbling away at the island republic's export markets. "We now consider Malaysia as one of our major competitors. It's

money is trickling down and consumer demand is shooting up. The same thing will happen in Vietnam."

Dr Hu feels there is a good chance of an economic upturn in the US - still Singapore's main export market. He feels

Japan has a great capacity for recovery - if it can solve its political problems. But monetary developments in Europe are viewed with dismay.

"One of the unfortunate by-products of liberalising financial systems is that the door is opened to speculators. As we've seen, they can knock central banks down. Modern communications aids the process. It's so easy to do now. That's one of the reasons we are reluctant to free the Singapore dollar."

Singapore has one of the highest per capita savings rates. Dr Hu defends what is criticised as an over-cautious fiscal regime but liberalisation of savings is now being investigated.

"As long as you preserve financial independence half your problems are solved... if you borrow too much you lose sovereignty."

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FOR foreign bankers, brokers or fund managers, life in Singapore can be frustrating.

They see the local economy continuing to grow at a cracking pace, and grumble about the relative lack of opportunities to invest in it.

They covet the huge pool of official reserves and other funds under the government's control, knowing that there is little chance for outsiders to profit from helping to manage them, and envy Singapore's own cash-rich but highly conservative banks. And they chafe under the rule of the country's monetary authority, whose regulatory regime must outrank in severity that in any other of the world's money centres.

Some gaze wistfully towards Hong Kong, and moan at Singapore's apparent failure to make the most of opportunities in its own hinterland.

Their gripes are understandable but exaggerated. *Financiers* in Singapore may be a lot less exciting than its free-wheeling rival to the north. But with characteristic deliberation and single-mindedness it has carved for itself an important niche in handling the exploding flows of money around the region. Moreover, its reputation for boring integrity as opposed to speculative excess means it is in no danger of losing that niche, and may be well-placed to build on it - the more so if Hong Kong takes fright with the approach of the handback to China in 1997.

As far as the banking sector

The financial centre has an enviable reputation, says Andrew Gowers

Island of integrity



The city centre and financial district: a key role in handling the Pacific region's avalanche of money

with its world-class infrastructure and telecommunications, the centre for their Asian currency and interest rate business, trading a widening range of financial instruments: the highest local forex operator, Union Bank of Switzerland, has expanded into a full-scale treasury operation and others are following.

The authorities hope that the presence of so many integrated trading rooms in Singapore will act as an additional lure for multinational companies pondering whether to use the island as their Asia headquarters. They are also discreetly wooing other regional central banks. Brunei already manages its sizeable official reserves through Singapore, and the Bank of China is said to be on the point of establishing a branch there.

The particular advantage of Singapore as a forex centre, say MAS officials, is its international character. Unlike Tokyo, which is dominated by dollar-yen trading, business in Singapore is spread more evenly between dollar-yen, dollar-D-mark and other trades, and smaller regional currencies are also playing a growing role. "We have a much more diversified market with more depth and breadth than Tokyo," said one official.

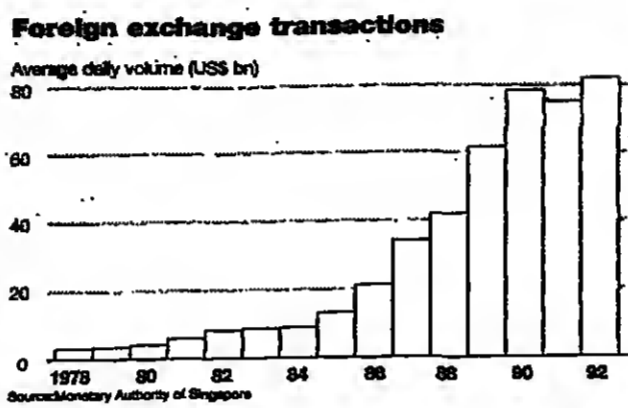
has become significantly more profitable. Competition from Japanese banks, in particular, has become less intense as they struggle to comply with BIS capital ratios; as a result, interest margins have improved.

Similarly healthy profits are being recorded in the domestic credit market: domestic loans and advances rose by 8 per cent in 1992 as banks cashed in on the local construction boomlet and the general pickup in economic growth towards the end of the year. Singapore-based banks are grabbing an increasing slice of lucrative regional loan syndication business, too, and are major issuers of Asian dollar bonds.

It is when you consider the broader picture, however, that Singapore's current limitations as a financial centre begin to become clear. Active currency and futures businesses are useful tools for a country seeking to maintain and enhance its *entrepreneur* status. But they do not quite constitute a capital market with real depth and diversity; nor, given the vast resources at its disposal, do they measure up to Singapore's true potential as a financial power.

Indeed, there are a number of specific domains in which foreign bankers and brokers argue that Singapore risks being overshadowed by regional rivals in the next few years. The stock market is one. The Singapore Stock Exchange, once the leading market in South-east Asia, has long been dwarfed by its counterparts in Bangkok and Kuala Lumpur - now in competition with Singapore although some Malaysian stocks are still listed there.

Buying shares in an economy growing at 6 per cent or more a year should be an enticing prospect, and did entice seven foreign brokers to take seats on the exchange two years ago. But the buying opportunities are sparse. With much of the economy under



the control of the government or of multinational investors, only a narrow range of Singaporean companies is listed.

In all but a tiny number of stocks, trading is thin and illiquid, overall volume is not rising, and price/earnings ratios compare unfavourably with those on offer elsewhere in the region - albeit in markets where the risks are much higher. Brokers complain of onerous tax arrangements, and of cumbersome and intrusive market regulation. As a result, Singapore has had fewer new companies seeking listings than some of its peers, and the market has been slow to develop.

"Five years ago as a foreign investor you had a choice of

Tokyo, Hong Kong and Singapore/Malaysia," said one broker. "Now there's a lot of choices. Thailand is a much bigger market. You don't have to be here if you don't want to be."

Some relief may be at hand, however, in the form of long-awaited privatisations. Later this year the government plans to float a stake - probably 25 per cent, with a tranche offered to foreign investors - in Singapore Telecom, its highly profitable telephone monopoly. The multi-billion dollar issue, which is expected to be heavily subscribed, will immediately add volume and breadth to the market. It is also being seen as the harbinger of further partial privatisation.

Kieran Cooke reports on refineries and plastics

The sun did not set

THE modern image of Singapore is of an economy dominated by electronics and other high tech products. But petroleum, one of Singapore's most established industries, still forms a key element in the economy.

Those who once referred to petroleum in Singapore as a sunset industry have been proved wrong. Last year more than \$400m was spent on upgrading and refurbishing existing refineries.

Singapore is the world's third biggest refining centre after Rotterdam and Houston. The oil majors and the locally and foreign held Singapore Refining Company have invested heavily in a range of sophisticated plant and equipment. The total capacity of Singapore's refineries is now slightly over 1m barrels a day, supplying almost 40 per cent of Asia's refined product imports. Singapore has also become - along with London and New York -

This is the third biggest refining centre after Rotterdam and Houston

one of the world's main oil trading centres. The petroleum sector accounts for more than 10 per cent of Singapore's total manufacturing output and refined goods continue to be one of the largest items in the country's trade account.

Low refining prices worldwide have squeezed local profit margins in recent years. But Singapore's future as a refining centre would seem to be assured by a number of factors:

● Singapore's geographical position, at the centre of the supply chain from the Middle East to Asia's main markets in Japan and South Korea, is becoming ever more important as most economies in the Asia region rapidly expand.

● Oil demand in the Asia region is now rising by nearly four per cent a year compared with a world average of 0.5 per cent. Total petroleum demand in the Asia Pacific region is projected to rise from the present 14.5m b/d to nearly 20m b/d by the turn of the century.

● To meet this fast expanding regional demand, increasing amounts of oil will have to be shipped from the Middle East - through Singapore. Though exploration activities are being stepped up in Asia, only about

44 per cent of the region's oil needs are locally produced. By the turn of the century it is estimated that nearly 80 per cent of Asia's oil will be imported.

● Though several countries in the region have announced plans to build refineries, there is concern about the increasing costs involved. Singapore is fortunate to have an established refining industry: it is far cheaper to expand and upgrade existing plants than build new ones.

● As a consequence of upgrading programmes Singapore is now acknowledged as one of the most efficient refining centres, capable of processing a wide range of product. Particular emphasis has been put on investments in equipment to produce low sulphur fuels, the so called "green" products increasingly in demand in the region.

A considerable petrochemical industry has grown up alongside the petroleum sector. Overall nearly 300 foreign and local companies are involved in refining, petrochemicals, industrial chemicals, pharmaceuticals and advanced materials.

As in the refining sector the petrochemical industry's margins have been squeezed in recent years by generally low world prices, plus a rapid rise in regional production, mainly caused by several plants coming on stream in South Korea.

But Singapore's planners see a big growth in regional demand for petrochemical products in the years ahead and have successfully attracted some of the biggest names in the business to invest in new plants. As in all areas of investment activity, Singapore is providing key infrastructural support.

A landfill project is planned which will unite five islands off the main island of Singapore into a \$40m petrochemical complex. Du Pont, Mobil, GE Plastics and others are investing more than \$200m in a variety of projects.

One of Du Pont's plants will produce key ingredients for polyurethane used, among other things, for liners in the ever expanding running shoe industry. Companies such as Nike moved their manufacturing operations to Asia some years ago: of the 90m pairs of shoes Nike produces each year, less than two per cent are made outside Asia.

In future Du Pont will be able to feed Nike plants in

tions - notably involving the port authority and other utilities. The authorities are also anxious to develop stock options and other derivatives on the exchange, which may further enliven proceedings in due course.

Singapore's banks, too, face a daunting regional challenge. By tradition they are staid, unadventurous institutions, preferring to focus their attention on the domestic market rather than expanding aggressively into the riskier world outside. Their rewards have been strong and reliable profits and a capital base that most international banks can only dream of (most have capital ratios well in excess of the ultra-conservative 12 per cent standard set by the MAS).

The authorities - proud of a record maintained by bank failures or scandals - have long encouraged the banks in their caution, both through their "safety first" approach to regulation and through their restrictions on the international use of the Singapore dollar. Now, however, they are exhorting the banks, like other Singaporean companies, to work harder on building a regional presence, which means building overseas branch networks and deposit bases.

It is far from clear that the bosses of the big four banks are equipped, by temperament or experience, for the task - although some local bankers and financiers are already dipping a toe in the water by establishing venture capital funds for investment in other Asian countries. Mr Lee Kuan Yew, Singapore's senior minister, has endorsed this trend, saying: "Overseas development funds are an important segment of our capital market which we must develop."

There is one other big impediment to the rapid development of Singapore as a diversified regional capital market and fund management centre: the government's restrictive approach to information, underlined last year by a crackdown on journalists and brokers after the leaking to the *Business Times* of an official estimate for growth.

The foreign financial community remains bewildered about this affair. But perhaps the authorities - mindful of the dangers of loosening control - are happy with the financial industry just as it is.



The Queen Elizabeth 2 at anchor during a cruise (picture: Glyn Goren)

■ The world's largest port

Every 4 minutes a ship comes in

ANYONE sceptical about Singapore's confidence in long-range planning, and in its ability to circumvent its own environmental and demographic limitations, should visit the port, writes ANDREW GOWERS.

Occupying a pivotal site at the southern end of the Strait of Malacca, one of the world's busiest shipping channels, it is now larger than any other in terms of on-shore surface area and of the gross registered tonnage of ships that call there.

With volume still growing at an annual rate of 15-17 per cent, it is surpassed only by perennial rival Hong Kong in volume of container traffic, and that only in the last year as the latter's China trade has soared. Work on a new \$1.4bn terminal in an island in mid-harbour to expand capacity nearly 50 per cent by 1995 from the current level of around 8m TEUs (twenty equivalent units - the standard container measure) is well advanced.

Sounds like enough to be going on with? Not for Singapore. The Port of Singapore Authority (PSA) is already working on a plan to build almost three times as much capacity again in four phases by the year 2030: a new 36m-TEU container mega-terminal to be constructed mainly on reclaimed land next to the existing port complex. It would be foolish to question its determination to proceed on schedule, with the first few berths ready just as Hong Kong reverts to Chinese rule in 1997.

In any other part of the world, this might sound like tinpot gigantomania. After all, many of Singapore's neighbours are engaged in their own elaborate and expensive port building or upgrading schemes. Surely there cannot be room for all of them and for another three Singaporeans?

PSA and government officials beg to differ. Experience has shown, says Mr Lee Chee Yeng, the authority's director of operations, that Singapore stands to benefit from increasing business elsewhere in the region, that it can maintain and improve its service as a hub which other ports will feed with cargo. "It's not a zero sum game," he adds.

This is already a well-established pattern for Singapore,

destination for huge numbers of feeder services from Thailand, Malaysia, Indonesia and as far afield as Sri Lanka and southern India. As international container ships have grown ever vaster - from perhaps 1,000 TEUs two decades ago to 6,000 TEUs today - the need for efficient but ports that can swiftly transfer containers from one vessel to another has grown.

"Ships are getting very big now and very expensive," says Mr Lee. "They want to go to a few big ports and get on quickly. Big ports offer a wider choice of lines and prices are more competitive."

The volumes of traffic are staggering. A ship arrives in Singapore on average every four minutes - about 80,000 a year. On any given day, around 60,000 20-foot or 40-foot containers are parked on the concrete waterfront while lines of vessels wait their turn in the haze beyond. Officials reckon that the port can turn around a ship carrying 1,000 boxes in 11 to 12 hours, which they claim is the fastest turnaround time in the world.

In this the PSA - a profit-making body owned by the government but due for partial privatisation, perhaps next year - is helped by Singapore's fanatical approach to its own limitations, and its high technology.

The two things which ports use particularly intensively are the two things in shortest supply on the island: land and labour. The PSA has thus had to find inventive methods of processing, storing, shifting and loading containers.

It is experimenting with driver-less trucks to move boxes around and a computerised operating system which will plot precisely where they should go: it is plugged into a fully computerised document processing system which eliminates burdensome paperwork and completes customs procedures while the cargo is still at sea; it is using expert computer systems to determine the precise placing of containers within a cargo hold.

The only big snag, it seems, in this world of just-in-time planning, control and automation is the ocean itself. Mr Lee confesses he has yet to come up with a technological answer to the typhoons that regularly sweep the south-east Asian seas.



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Asia's industrial expansion is a magnet for Singapore investors, says Kieran Cooke

Challenge of the eastern horizons

LATE last year Mr Lee Kuan Yew, Singapore's senior minister, made a lengthy visit to China. The trip acted as the catalyst for what is being billed as one of the main policy shifts in Singapore in recent years.

Mr Lee returned to berate Singaporeans for not participating in China's economic progress. Singapore had been made too comfortable, he said. The country was in danger of missing out because its people were not willing to take risks and invest overseas.

"That's our problem... we have got to shake Singaporeans up, make them adventurous, as we will be leaders."

All the considerable armory of the government has since been mobilised to promote a new more outward looking policy. Ministers constantly talk of the need for Singapore to develop an external economy, a "second pillar" or wing.

They say Singapore must be more willing to take advantage of economic developments in the region. Singaporeans themselves must become more entrepreneurial, more willing to take risks, less afraid of failure. "Who Dares, Wins" should be Singapore's motto, says Mr Lee.

The basic idea behind the new policy is that Singapore, having outgrown its small domestic base, cannot continue to expand its economy without the boost of external investments. Entrepreneurs from Hong Kong and Taiwan and conglomerates from South Korea have all made large investments overseas which will provide added growth at home in the years to come.

Singapore, says the government, has lagged seriously behind and now has to become more outward looking. The alternative, says Mr Lee, is an

unpleasant one. "We will be a failed story - one that nearly made it but stalled half way."

The Singapore Inc approach, used so successfully at home, is being duplicated overseas, with government departments and bureaucracy coordinating with big business to mount a foreign campaign.

Dr Richard Hu, the Finance Minister, announced a number of incentives to promote outward investments in his recent budget. The main thrust of a new tax package, which

One of the reasons for hesitancy is the insularity of an island people

involved cuts in both personal and corporate tax rates, was to encourage investments abroad.

Tax exemptions are to be given to various overseas ventures, while the government will provide cash incentives to operations setting up abroad.

"Individuals will be encouraged to take part in risky but highly profitable ventures, knowing that if they dare and succeed, government will not cream off a large share of their rewards," said Dr Hu.

Singapore trade offices abroad are helping investors identify opportunities. The government's Economic Development Board (EDB), which has attracted hundreds of companies to invest in Singapore, is now helping fund Singaporean businesses which want to open shop overseas.

A number of Singapore schools are planned overseas to encourage families to live abroad. The government has even set up a special committee to ponder the difficult question of how to make Singaporeans more entrepreneurial.

Some are sceptical about the new policy. They point out that the government itself, and Mr



Singapore international monetary exchange dealers: success will depend on a sense of adventure (picture: Glyn Gervin)

Lee in particular, have been in many ways responsible for fostering attitudes now being criticised.

They argue that by building up an over-regulated, carefully controlled society with an economy dominated by state companies, the entrepreneur has been squeezed out of people.

Others say the real aim of the new policy is to tweak the ears of Singaporeans and pre-

vent complacency. "The government is once again using scare tactics, telling us that unless we try harder we are in serious trouble," says one critic. "It's a very familiar refrain."

In fact, Singapore already has considerable investments overseas. A recently completed Department of Statistics report said 2,290 Singapore-based companies had set up subsidiaries abroad up to the end of

1990, with direct investments totalling S\$7.49bn. Malaysia and Hong Kong were the two top locations both in terms of company numbers and amounts invested.

The report concluded that Singapore's direct investments overseas are "expected to grow dramatically in the 1990s" as new markets open up and Singaporean businesspeople gain more experience of working abroad.

That prediction has already been borne out by developments in China and Vietnam. China says that Singapore investments in China in the first six months of 1992 totalled US\$494m against a total of US\$996m for the entire 1979-91 period.

Hardly a day passes without the announcement of another big China project, usually involving one or other of Singapore's public companies in

combination with private sector partners (see article below on Singapore Technologies).

In particular, Singapore is selling its expertise in infrastructural development and management - covering everything from airports and airlines to banking and fiscal systems - in the China market. The same is the case in Vietnam. Singapore is now not only Vietnam's biggest trading partner, it is also among the leading investors in the country.

For several years Singapore-based companies have been investing in hotels and real estate, most visibly in Australia but also more recently in England and elsewhere. Several Singapore hoteliers are now investing in new projects

Singapore is one of the leading investors in Vietnam

in China and Vietnam.

Singapore is sitting on a mountain of savings. Its foreign exchange reserves are officially put at \$40bn though they are generally considered to be considerably higher.

The government's Singapore Investment Corp (GSIC) which acts as government fund manager, has substantial funds invested in stocks overseas.

The GSIC is reported to have navigated recent ups and downs on the Tokyo and Wall Street stock markets exceptionally well. "They are the smartest guys in town," said one merchant banker.

But some government investments have not gone well. A 1991 purchase for S\$821m of a 30 per cent stake in Mount Charlotte Investments, a British-based hotel chain, has not so far provided any returns.

Other investments in high tech companies in California's Silicon valley have also proved less than attractive.

The government's answer to its critics is that such investments are made long term and that once risks are taken, then some degree of failure is likely.

The government now feels it is vital that such attitudes are passed on to the private sector. Entrepreneurs from Hong Kong and Taiwan are not worried about the prospect of failure. As Mr Lee notes, every Hongkonger believes that he can become a millionaire.

"There is that spirit of adventure, that willingness to take risks, to lose everything and to try again, that makes them so different and so successful. On the other hand, Singaporeans prefer secure careers and are home-bound. They are not willing to give up the security of Singapore for more gain abroad when they think the risks are too high or where it entails much discomfort."

Inculcating a more cavalier, swashbuckling approach in Singapore businesspeople has its dangers. Singapore prides itself on its above board business style. Entrepreneurs, to be successful overseas, might have to learn to be more tricky.

Mr Goh Chok Tong, Singapore's prime minister, was recently asked if he felt there was a danger that Singaporeans might import less scrupulous business habits from overseas.

"I think when they go outside, they have to learn how to succeed and our rules will be very clear."

"In Singapore we do things in our usual way... Outside I think they'll have to be entrepreneurial. Inside they will have to be correct."

■ Singapore Technologies

Dynamic engine with a military rhythm

AT THE heart of Singapore's intensely competitive, market-orientated economy is a group of state companies, accounting for an estimated 25 per cent of gdp. They, along with the multinational corporations, have formed the engine of Singapore's economic growth over the years.

Singapore Technologies Industrial Corp. (STIC) is part of the Singapore Technologies conglomerate, the largest industrial and high technology group in the country with a total workforce of more than 12,000 and annual sales of \$1bn.

The Singapore Technologies group started life in the mid 1980s as the industrial arm of Singapore's armed forces. One company in the group, Chartered Industries, has developed considerable expertise in a wide range of armaments and, according to a Singapore

STIC accounts for 25 per cent of gdp, employs over 12,000 people and has sales of over \$1bn a year

newspaper report last year, is now one of the world's top 10 military small-arms companies.

The group has diversified into many other areas. Following a company reorganisation in the late 1980s, STIC was formed to oversee the group's commercial activities in the electronics, precision engineering and industrial services sectors. Last year STIC had a turnover of \$773m.

"Start with the idea that Singapore is like a company - that's the way it works," says Mr K. S. Wong, STIC's president.

Mr Wong says STIC is not like public companies in other countries. "We have no subsidies. We have to borrow from the market. We have to take part in tender processes and compete with private sector companies."

STIC's activities are very varied. It owns the largest computer software house in southeast Asia and provides computer recovery services to a number of companies, including Singapore Airlines.

It provides communications links on Singapore's mass rapid transport system (MRT), runs car parks, builds flight simulators, supplies the Singapore army with cooked food, runs a vehicle leasing company, owns one of the country's biggest travel companies and two retail stores. It also

operates Singapore's mint and mints coins for Brunei and Malaya.

Now the emphasis is on expanding activities overseas. Industrial park development has been the main focus of attention. STIC helped in the formation of the first industrial park in Thailand a few years ago.

In partnership with another state company - Jurong Environmental Engineering - and the Indonesian Salim Group, STIC is building and operating a 500 hectare industrial park on the Indonesian island of Batam, about 20km south of Singapore.

Batam will eventually employ 20,000 workers, mainly in the electronics industry. Already several multinational companies have set up operations on the island.

"We provide everything for the [multinationals] from beginning to end," says Mr Wong.

"We organise work permits, build their factories, lay out water and electricity, build sewerage systems, provide their housing. All they have to do is get on with their business."

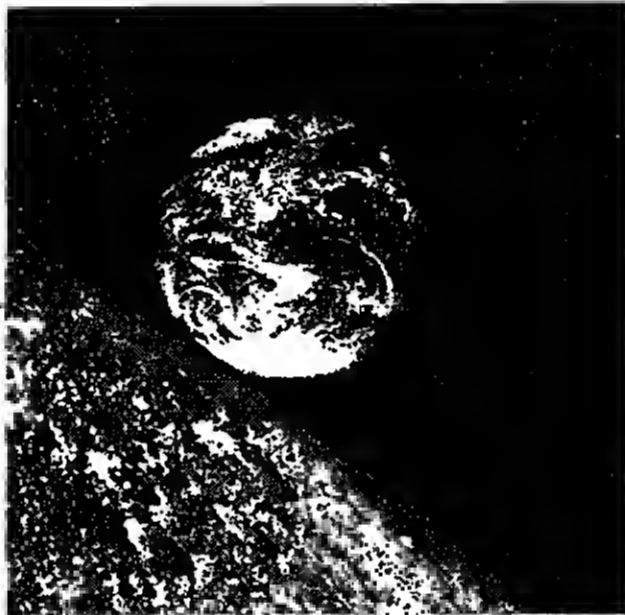
The Batam concept is now being transferred to China on a much larger scale. With the same partners STIC is building a 5,000 hectare industrial park in Fujian province. A similar project is being investigated in southern India.

Other international opportunities are being explored. STIC now has offices in Munich, New York and Tokyo. As well as industrial parks STIC is involved in specialised electronics and precision engineering projects overseas. STIC has recently entered into an agreement to supply stitcher/blender modules for Xerox photocopiers.

Mr Wong says there are many other possibilities for STIC overseas, particularly if partnerships are formed with multinationals.

"If you are a multinational in Europe or elsewhere, involved in technology and want to come to Asia then we suggest you look at us as a possible partner. STIC has an established network in the regional market. We also have all important guanxi [connections] in China. Perhaps most importantly we are willing to put our money up front. Forming such partnerships is part of our philosophy and the way to grow internationally in the future."

Kieran Cooke



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*World Competitiveness Report 1991 & 1992

SINGAPORE 6

Premier Goh Chok Tong must work harder to assert his authority, writes Kieran Cooke

A legacy and a challenge

AT THE end of last year, Mr Goh Chok Tong, Singapore's prime minister, put his political neck on the block.

Mr Goh resigned from parliament and stood in a by-election in his own constituency.

There was no doubting that Mr Goh and his governing Peoples Action Party (PAP) would win. The crucial factor was the margin of victory. In the event Mr Goh and the PAP gained 72 per cent of the vote.

Such is the nature of Singapore politics. If Mr Goh and the PAP had not achieved a resounding victory in the by-election the prime minister's future could have been in doubt.

Mr Lee Kuan Yew, Singapore's prime minister for nearly 30 years till he handed over power to Mr Goh in 1990, told voters that the future of Singapore would be in jeopardy if Mr Goh and the PAP did not win by a big margin.

"There is a danger that a significant percentage of voters may believe they can score points against the government by reducing the PM's votes and leave their neighbours to vote for the PAP," said Mr Lee.

"I ask them to pause and to consider the effect on their



Ex-premier Lee Kuan Yew: out of power but still on the stage



Premier Goh Chok Tong: under the founder's long shadow

own future... If the by-election result is poor, you will cast a shadow on the PM's authority and put Singapore and your own future in doubt. If you deny the prime minister a strong endorsement by a much lower percentage of votes, then you would have shot yourselves in the foot."

The need for such overwhelming victories at the polls is partly to do with the problems Mr Goh has faced coming to office after such a dominant leader as Mr Lee. It is also a reflection of the PAP's political culture.

Mr Goh has not had an easy

time asserting his political authority. Mr Lee towered over Singapore's politics and virtually every facet of the country's life for more than 30 years. Mr Lee resigned from office to make way for a second generation of leaders in Singapore, among them Mr Goh.

But Mr Lee did not leave the political stage. Far from it. He became senior minister in Mr Goh's cabinet. Mr Lee did not hesitate to criticise if he felt the running of the country was not being carried out properly.

In an effort to establish his own political mandate, Mr Goh called a general election in mid

1991. The PAP won 77 of the 81 seats in parliament and 61 per cent of the popular vote.

The result, though highly respectable by the standards of most governing parties elsewhere, was considered a serious setback by the PAP and by Mr Goh. More opposition MPs than before had been allowed into parliament. The PAP had seen its vote slip to its lowest level since the late 1960s.

Mr Goh did not feel his political legitimacy had been established. That finally came with the by-election last December.

But in the interim, various factors had strengthened Mr Goh's position. There is a widely held belief in Singapore that Mr Goh was not Mr Lee's preferred choice as prime minister. Mr Lee had carefully groomed his own son for the job.

Lee Hsien Loong, a reserve brigadier-general known as "BG" Lee, is cut very much in the same no-nonsense mould as his father. Mr Goh was seen only as an interim prime minister - in the job until BG Lee, 40, was thought ready to assume office.

BG Lee had distinguished himself as Minister for Trade and Industry and as one of

Singapore's two deputy prime ministers. But last November it was announced that both BG Lee and Ong Teng Cheong, another deputy prime minister, had cancer.

BG Lee has been away from the political scene for several months. Mr Goh says that the younger Lee has responded well to treatment and it is likely he will take up his duties again soon.

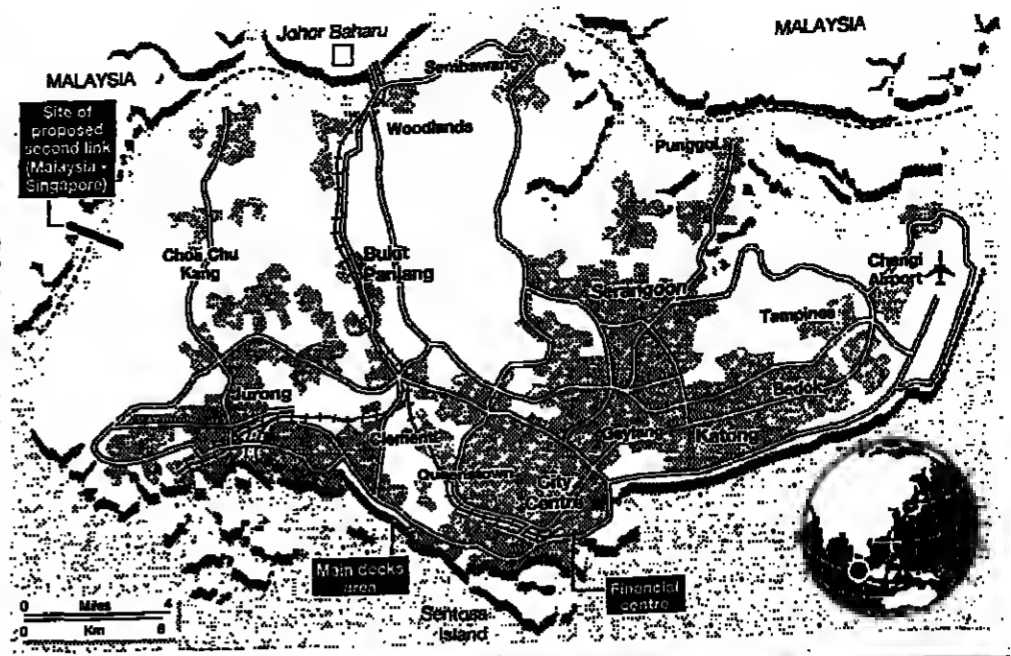
Mr Goh has taken over the important post of PAP secretary general from the elder Mr Lee and put his own people in key positions, including placing a former aide as head of the powerful internal security service.

Mr Goh appears confident and denies any suggestion that he is an interim prime minister, or of any conflict with Mr Lee. "The important thing is the relationship between myself, the senior minister, BG Lee and my colleagues. We know the nature of our relationships. I know what role I'll be playing in Singapore. I was hoping, frankly speaking, that I could contemplate my retirement in the year 2000. I see myself in this job for quite some time to come, even had there been nothing wrong with D-PM Lee."

But Mr Goh and the PAP do have problems. If the PAP vote continues its downward trend in general elections it is not inconceivable that within a few years there could be up to 20 opposition MPs. There are those who see this as an inevitable development in a maturing political and economic environment.

The governing party is a highly disciplined, secretive organisation that carefully selects its members. After more than 30 years in power the PAP and government have become synonymous. The party still very much reflects Mr Lee's image.

Mr Raj Vasil, a writer on Singapore politics, says the elder Lee is the party in the eyes of Singaporeans: "The PAP does not have much of an identity independent of the (then) prime minister and the government headed by him. Its image, identity and appeal are almost entirely derived from



KEY FACTS

Area	639.1 sq km
Population	3.1m
Head of State	President Wee Kim Wee
Currency	Singapore dollar (S\$)
Average Exchange Rate	1991 \$1=1.7276 S\$
	1992 \$1=1.6290 S\$

ECONOMY

	1991	1992
Total GDP (\$ bn)	40.2	46.0
Real GDP growth (%)	6.7	5.8
Components of GDP (%)		
Private Consumption	43.7	43.1
Government Consumption	38.2	40.8
Exports (net)	10.4	9.8
Imports (net)	8.1	6.2
Inflation rate (%)	3.4	2.3
Employment growth (%)	+2.8	+3.4
Reserves minus gold (\$ bn)	34.1	39.5
M2 growth (%)	+14.3	+11.7
Call money rate (%)	2.8	0.8
3 month interbank rate (%)	3.0	2.2
Straits Times index (%)	+29.1	+2.3
Current account (\$ bn)	3.3	2.9
Exports (\$ bn)	56.6	60.9
Imports (\$ bn)	61.6	66.5
Trade balance (\$ bn)	-4.1	-4.9
Main trading partners (%)	Exports	Imports
US	19.8	15.8
Malaysia	14.9	15.3
Japan	8.7	21.3
Hong Kong	7.2	3.0
Thailand	6.3	3.2
UK	3.0	2.9
EC	14.0	12.0

Notes (1) Year on year percentage change
(2) Year on year percentage change in consumer prices
(3) At year end
(4) Year on year percentage change at 31st Dec.
(5) Percentage share by value in 1991
Source: IMF, Datastream, WEA, Economist Intelligence Unit

Profile: role of the SIF

Widening the island's mental horizons

ONE thing Singapore cannot be faulted for is planning. Long before the government announced its policy to develop a fully fledged external economy and encourage Singaporeans to invest overseas, the ground was being prepared.

The Singapore International Foundation (SIF) was founded in 1991 with the specific goal of encouraging Singaporeans to think internationally.

Dr Chan Heng Chee, former university lecturer and most recently Singapore ambassador to the UN, is SIF's director. Though government played a role in bringing the SIF into being, Dr Chan stresses that the SIF is an independent, non political organisation.

"We aim to help Singapore in its efforts to go global. This should benefit others and benefit Singapore as well."

"We have organised volun-

tary service schemes and now have Singaporean professionals helping in various countries. At the same time we try to stay in contact with Singaporeans overseas, to tell them about developments here."

Dr Chan feels much has changed in Singapore - not just the physical landscape.

"Singapore has opened up. If you read the newspapers today compared with a few years ago they are very different. There is more willingness to criticise."

"The arts and theatre scene has changed. It might have a certain innocence and perhaps

it lacks sophistication. But I tell people there are tremendous opportunities in Singapore, especially for the young."

The SIF estimates that up to 100,000 Singaporeans are now living abroad, a sizeable proportion of Singapore's 2.8m population. Dr Chan says that there is concern about a brain drain and one of the aims of the SIF is to keep in touch with Singapore's overseas talent. She denies any suggestion that her organisation is out to keep tabs on its citizens.

"I don't have lists of names or dossiers - there is no Big

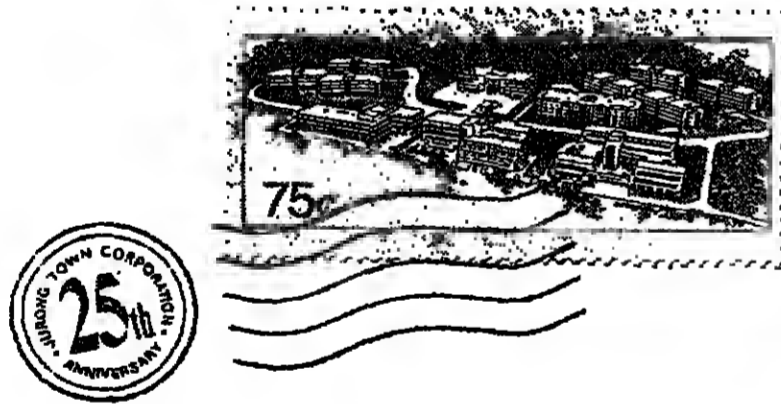
Brother motive." Dr Chan feels Singapore has a lot to offer the world. "Singapore is a good brand name. We work hard, we are efficient, we get jobs."

The SIF seeks to help Singaporeans to internationalise, while maintaining what's considered to be a distinct Singaporean identity.

According to Dr Chan that identity is made up of various elements. Insecurity is one of them. "Insecurity is part of the psyche of Singapore. Our history has taught us that we are vulnerable. We are a paradox. We always have to balance the needs of creativity with the requirements of building a state, a nation."

But as more and more Singaporeans seek opportunities overseas, they will have to loosen up. "That will be a challenge to our identity."

Kieran Cooke



AFTER PUTTING OUR STAMP ON SINGAPORE'S INDUSTRIAL LANDSCAPE, WE'RE READY TO GO OVERSEAS.

When Jurong Town Corporation was formed in 1968, much of Singapore was made up of pockets of slums and swamps.

The mission to develop our country's industrial infrastructure read uncompromisingly like a charter to explore the New World.

Our maiden project was to create Singapore's first industrial park out of a sweltering jungle fringed with crocodile-infested mangrove swamps.

Sweeping aside all romantic notions, the men and women of JTC (as we have come to be known at home) put hand to plough.

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And then, like the proverbial phoenix, rose about 5,000 factories, a deep-water port, a reservoir,

schools, homes and a new-found confidence.

With the changing times came the need for cleaner, environmentally friendly factories, sophisticated facilities for high technology industries and designs with energy-conserving features.

And while JTC received increased recognition for its role as the chief architect of Singapore's industrial landscape, the Corporation continued to push ahead with bolder, bigger and newer plans for the future.

Not even mountains, some had whispered from the fringes, can stand in the way of Jurong Town Corporation's resolve to get a job done.

Today, JTC manages more than 30 industrial estates housing a total of about 5,000 multinational corporations and local companies.

From multi-storey factories to technology and business parks. From industrial land preparation to port and marine services.

Somewhere along the way, the problems and challenges encountered in earlier years became the basis on which the Corporation's experience and expertise are built.

Is it any wonder that JTC possesses the expertise to manage a wide range of services in

industrial township management run by some of the keenest minds in Singapore?

Or is it surprising that JTC has now grown to be the largest developer of industrial estates in the island Republic?

Today, JTC's phenomenal success and rapid expansion prompts us to look abroad to share our knowledge and experience.

Joint venture projects are going on in Thailand, Indonesia and China.

Consultancy services for overseas projects are currently being undertaken by one of our subsidiary companies.

JTC still continues to seek partnerships from all quarters to develop investment opportunities in the Asia-Pacific region.

For more information, write to us at Jurong Town Hall, 301 Jurong Town Hall Road, Singapore 2260. Or you can contact us by fax (65-568-8646) and telephone (65-568-8648).

You will find us particularly insightful and tempered with a taste for challenges.

After all, it seems like only yesterday when we had our humble beginnings in a crocodile-infested swamp.



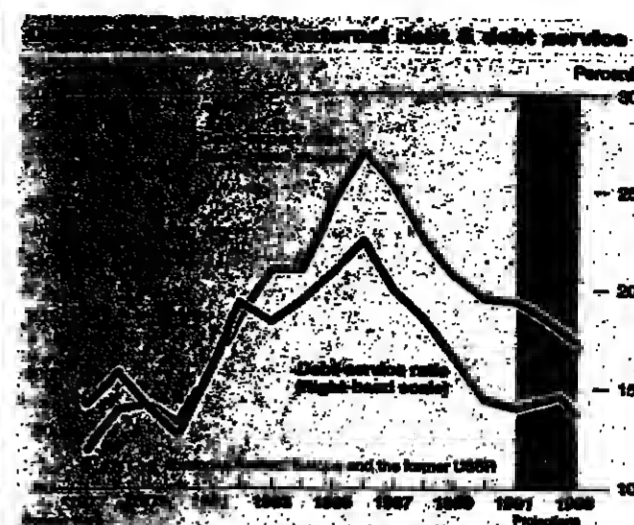
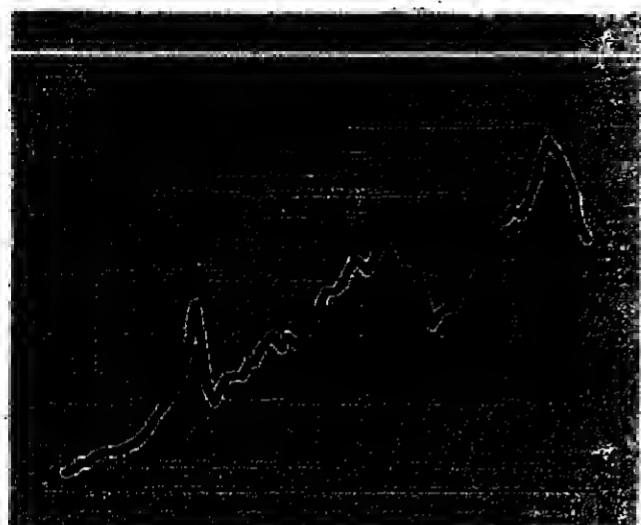
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FINANCIAL TIMES SURVEY

LATIN AMERICAN FINANCE

SECTION IV

Monday March 29 1993



Rio de Janeiro, Brazil: the country has the largest economy in Latin America, but its economic prospects remain highly uncertain. Even so, capital inflows rose remarkably last year to \$10.1bn, compared to \$1.2bn for the preceding year, according to preliminary estimates. See page two.

Top of investors' agenda worldwide

One in every three new investment dollars now allocated worldwide in equity is reported to be going into emerging markets. Latin America is winning an important share, reports Stephen Fidler

It could be one of the most important financial developments of the 1990s, setting investment trends into the 21st century - or perhaps just another financial fad. Mega-trend or a flash in the pan, Latin America has in the last three years pushed itself to the top of the agendas of investors - individual, financial and corporate - worldwide.

The reasons are both internal and external to the region. Internally, economic policies offering prospects for stability and a return to growth are being pursued by governments no longer hostile to private capital. The cloud of the 1980s foreign debt crisis has lifted in some countries, thanks to low US interest rates and negotiated debt relief. Externally, low returns in established markets have forced investors to look further afield to improve performance.

Michael Howell, of Baring Securities global strategy unit in London, reckons: "One in every three new investment dollars now allocated worldwide in equity is going into emerging markets."

Of this, Latin America is getting an important share. Mr Howell often describes to investors an ideal investment portfolio for the turn of the century. The portfolio is only 54 per cent invested in the stock markets of the industrialised world; the rest is in the

emerging markets of developing countries. One-fifth is concentrated in Latin America. Yet this is no portfolio of the future, but a typical British investment spread in 1913. Mr Howell argues that, after years in which emerging markets were ignored, history is turning a full circle.

Richard Watt was recently appointed head of Latin American investments for Gartmore Investment Management, which manages around \$12.5bn (\$19bn) of funds. Gartmore has recommended to clients that they put up to 14-2 per cent of their portfolios in newer emerging markets. Around 70 per cent of that will go to Latin America. Gartmore has already placed \$40m of investment in the region since the start of the year.

Pension funds in Britain account for more than £300m of investments. Philippa Armistead of Fleming Investment Management believes UK institutions will approach Latin America as they did Asia's emerging markets some years ago, initially committing perhaps 1-2 per cent before building up to higher levels. UK institutions are lagging Dutch and, in particular, US investors. In the US alone, institutions hold some

\$6,000bn. There, some consultants are recommending significantly larger exposure to Latin America. They see economies with good growth prospects, attractive share valuations and the scope to increase return by diversifying portfolios and thereby reducing risk.

EVEN if a fraction of this money makes its way into Latin America on a sustainable basis, it can make a huge difference. Yet investors are still cautious after the 1980s debt crisis, unsure about the durability of the improved economic performance. There are questions about the ability of markets to absorb a large influx of funds. Investors rarely complain about inadequate settlement procedures - except in Venezuela - but the markets in most shares are thin and prone to overshoot.

This volatility of Latin stock markets was forcefully underlined last year. Stocks hit new highs in the first half of the year and then collapsed, leaving investors with meagre returns and a large number of

proposed international equity offerings high and dry.

The market for Latin American bonds also had its share of troubles: the latter part of the year saw a glut of over-priced bond issues which sold poorly. Some underwriters only cleared their books of these issues with this year's fortunes drop in US interest rates: they may as a result be more cautious in the future.

These problems, providing investors with their first real setbacks since private capital began flowing back into Latin America at the start of the 1990s, contributed to a slowing of portfolio investment into the region last year. That interest among portfolio investors in the region continues to grow after such difficulties suggests the return of foreign capital to the region may be more than a transitory phenomenon.

Despite this, an important proportion of the inflows - too high for comfort - has been of volatile short-term capital. This has been attracted by high real interest rates in the region which are a conse-

quence of tight monetary policies aimed at curbing inflation.

Dependence on short-term capital to cover current account deficits - such funding is estimated to make up between a third and a half of Mexico's capital inflows - carries risks. It can flee as quickly as it arrived, with harsh consequences on interest rates, growth and economic policy.

Over-dependence on volatile foreign capital has underlined the need for reform to boost domestic savings, following the example of Chile where private pension funds have stimulated growth of local capital markets. Throughout the region, foreign banks are showing a growing interest in local capital markets.

There has also been a significant influx of long-term capital, foreign direct investment (FDI) with the potential to expand the region's productive capacity. As portfolio flows slowed last year, foreign direct investment is estimated to have continued growing. No longer viewing such investment with the suspicion of the

past, the region's governments are doing what they can to attract it.

Some FDI has been spurred by privatisation, an unrepeatable phenomenon, but much has also been driven by growth prospects and expected progress towards regional economic integration, which translates into bigger domestic markets.

CAPITAL inflows have opened in some countries the prospect of a future path to sustainable growth. They do not guarantee it, however. Latin America is in the early stages of an economic transformation that involves the destruction of much old industrial capacity. Industries once protected by high tariffs and import quotas are no longer viable.

This restructuring - together with the slimming down of government - implies unemployment for important, and often powerful, sectors of society. Yet the economic benefits of new investment, if indeed it continues, could take years to become evident. Since elected

governments now hold sway in most of the region - and in the next two years almost every country faces a presidential election - there is a risk of a reaction in economic policy.

Even if economic success is enjoyed by some countries, others may miss out. The economic prospects for the largest economy - Brazil - are highly uncertain. Governments face social problems - big income inequalities and poverty that worsened throughout the 1980s.

In two big economies, Argentina and Mexico, inflation has been tackled in part with policies that have encouraged an appreciation of the real exchange rate. These countries and others have experienced widening current account deficits, raising questions about whether they can be financed on a sustainable basis. Absent Brazil's big trade surplus, the region's widening current account deficit underlines that whatever investment so far has taken place, it has yet to create an important base for exports.

The reform of the region's economies has given Latin America a heightened dependence on foreign capital, external economic conditions and the world trading system. The auguries are strong for continu-

ued flows of new finance to Latin America. Yet most of the region's governments have placed their bets on a system of free markets and free trade, a system now being questioned in the US, the region's most important trading partner, and elsewhere in the industrialised world.

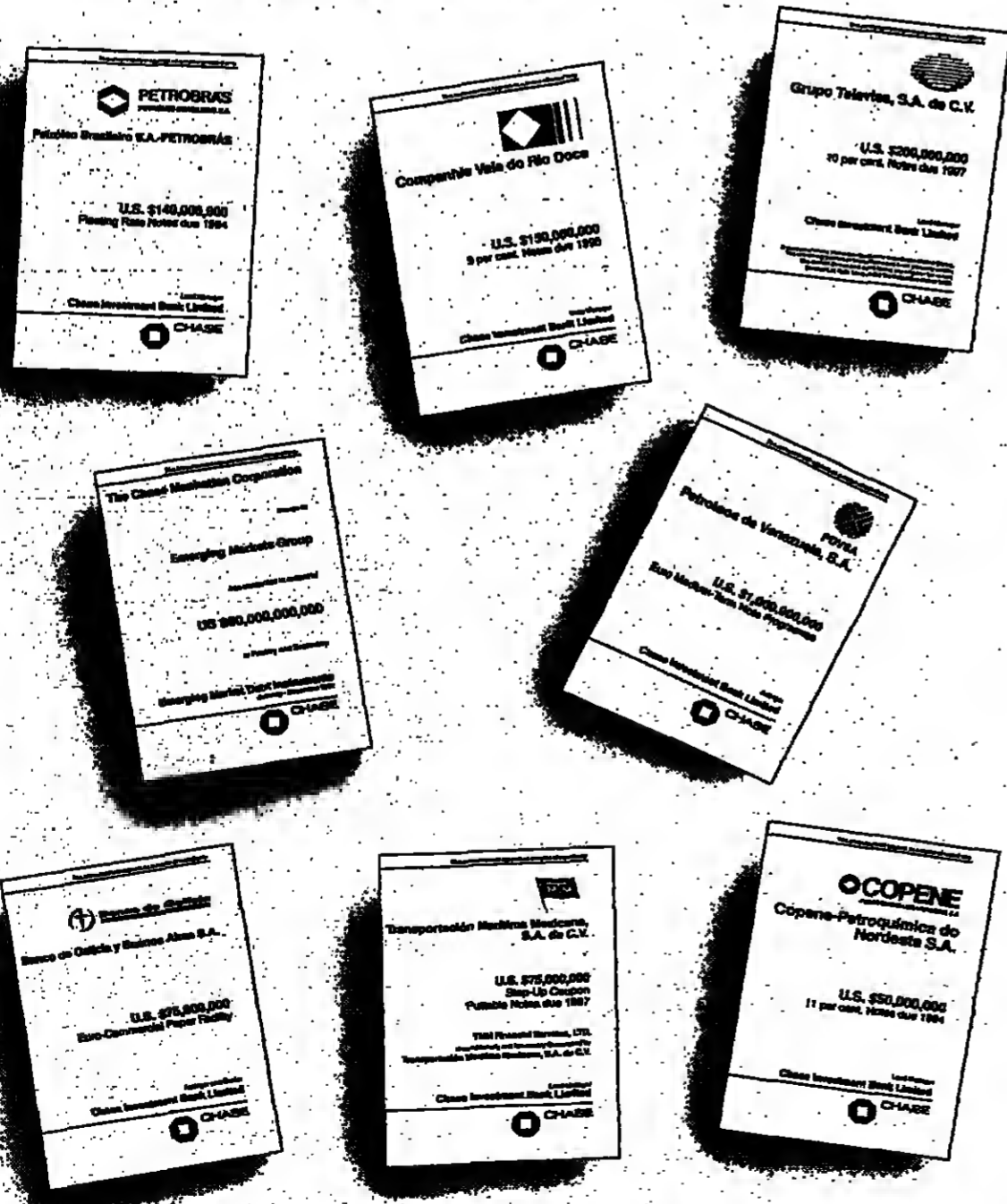
ON OTHER PAGES The return of capital to Latin America

On pages 2 to 5, Stephen Fidler, Latin America Editor, examines in detail the resurgence of capital flows to Latin America and whether they are sustainable. The inflows have helped to restore growth but have not been unalloyed good news in the management of economic policy. What are the prospects for continued flows of short-term capital, portfolio investment and foreign direct investment and is there any danger, with the region's current account deficits on the rise, of any repeat of the 1980s debt crisis?

Tracy Corrigan looks at secondary markets while Richard Lapper reports on the way that pension funds can promote local capital markets. See page 6

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Top 19 lead managers of Latin American public Eurobonds 1991 to March 1992			
Pos.	Manager or group	Amount \$m	%Share
1	Chase Manhattan	1,115.00	17.16
2	CIB	1,000.00	15.38
3	JP Morgan	800.00	12.82
4	Barclays Trust	503.00	7.71
5	Swiss Bank Corp	501.04	
6	Merrill Lynch	365.00	
7	Chase	250.00	

LatinFinance 1992 Bond League Tables by volume		
Lead Manager	Volume (\$US millions)	Percentage of Total
Chase	1225.00	13.20
Citibank	1176.66	12.68
Goldman Sachs	1050.00	11.31
CS First Boston	1000.00	10.77
Bear Stearns	615.00	6.63
Merrill Lynch	493.00	5.31
ABN-AMRO	435.00	4.69
Bankers Trust	350.00	3.77
JP Morgan	330.00	3.56
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LATIN AMERICAN FINANCE 2

The return of capital to Latin America

Report by Stephen Fidler

AT THE beginning of this year, the Financial Times celebrated its 100 years of publication on pink paper and carried a reproduction of its first pink issue.

News on Latin America was prominent. One front page article declared that J.S. Morgan and Co. and Baring Brothers declined an invitation "to send delegates to Buenos Aires to discuss the debt question". J.S. Morgan saw "nothing to negotiate about in regard to loans."

Mexico's debt had been renegotiated five years earlier. On the last day of 1892, Mexican 6 per cent bonds issued in the 1888 restructuring by the Porfirio Diaz government closed up a quarter point on the London stock exchange, at 78 per cent of face value.

One does not have to look far to be reminded of the boom-and-bust nature of the international financial markets' 200-year-old affair with Latin America. The question now is whether the recent unusual upsurge in private capital flows is sustainable, or whether once again the whole process is going to end disastrously.

The flows have been spurred by developments both within and outside the region. Latin American governments have set the scene by introducing economic policies which have met the approval of investors. To greater or lesser degrees, governments have opened economies to outside competition, curbed budget deficits, privatised state industry and generally increased the role of the market. High real interest rates, designed to bear down on inflation, have more than compensated investors for the perceived risks of investment.

The foreign debt problems which plagued governments during the 1980s have been temporarily ameliorated by sharply lower US interest rates. Mexico and others have benefited from longer-term, albeit modest, debt relief through the plan launched in 1989 by former US Treasury

Secretary Nicholas Brady. Outside the region, low US interest rates and recession in the US and other industrialised countries have lowered investor returns in more traditional markets, and led investors to look at higher returns offered in Latin America. These investors include Latin Americans who, over the previous 20 years, had moved capital away from the region.

According to preliminary estimates from the Economic Commission for Latin America and the Caribbean (Cepal), the region's net inflows of all types of capital amounted to \$57bn last year, 50 per cent up on the preceding year and nearly three times the level of 1990. The greater part of this inflow was private capital.

Mexico's inflows were up to \$33.3bn from \$21.5bn; while Argentina's rose to \$9.5bn from \$5.3bn. The most remarkable rise was Brazil's, to \$10.1bn from \$1.2bn.

After nine years in which Latin America transferred resources to the rest of the world, net transfers - that is new finance minus capital repayments and interest and dividend remitted abroad - became positive to the tune of \$5.5bn in 1992 and trebled in 1993 to \$17.1bn.

The inflows to date have been critical in the restoration of economic growth: economic expansion exceeded population growth in 1991 and 1992. They have helped to lift the financial constraints that have plagued the region's economies since the beginning of the debt crisis.

Too much of a good thing?

HOWEVER good for growth, the extent of the inflows has complicated the task of governments across Latin America in managing economic policy.

The flows have had important repercussions on exchange rates, the money supply, inflation, interest rates and wages. They have often pushed economies in the opposite direction from that intended by governments. They have made it more difficult to increase exports, have increased dependence on international capital markets and on developments in the indus-

Economic outlook: current account balances and total external debt (\$bn)

Country	1992 balance	Proj. 1993 balance	1992 debt	Proj. 1993 debt
Argentina	-8.0	-8.0	62	56
Brazil	5.2	3.7	127	127
Chile	-0.5	-1.2	20	20
Colombia	0.9	0.4	16	16
Mexico	-22.7	-25.7	105	112
Peru	-1.8	-1.8	22	23
Venezuela	-3.7	-2.6	34	35
LATIN AMERICA	-30.5	-35.2	384	390

Source: J.P. Morgan, Emerging Markets Economic Outlook, 1993

trialised world, and have played a role in bidding up prices of existing assets, the general benefits of which have not always been clear.

Most governments have handled the inflation risk caused by the capital inflows with some skill. The proof of this is in the decline, except in Brazil, of inflation rates across the region as governments have responded with tight monetary and fiscal policies.

However, this has, in some countries, been at the cost of an exchange rate pitched too high to ensure that domestic industry remained competitive in international markets.

The appreciation of real exchange rates caused by the inflows to some countries has - by making exports more expensive and imports cheaper - added to the difficulties of expanding exports. It has placed additional pressures on domestic industries also facing the tough adjustment to lower tariffs and the lifting of import quotas. As Chile's finance minister, Alejandro Foxley, said last year: "We already know from the previous crisis that a sudden inflow of capital can be extremely destructive: it forces an appreciation of the currency that can be of such a magnitude that it will severely hurt the domestic productive structure."

The exchange rate has been a real bind for many governments. If they allow their currencies to appreciate, domestic industry is damaged, imports increase and the current account deficit worsens. If they attempt to maintain exchange rates by intervention in the currency market, the inflows are absorbed through increases in foreign exchange reserves.

However, this latter course - because the government issues domestic currency to buy foreign currency - expands money supply and increases inflationary pressures. The government can take action to offset the increase in

money supply by selling government debt. But if it sells debt, this pushes interest rates higher - thereby deterring physical investment (which is actually what it is trying to encourage).

It also spurs even more short-term inflows of capital. In the mean time, central banks lose money as they buy up foreign exchange on which they earn single-digit interest rates, and pay double digit interest rates or higher to buyers of the debt.

The problems caused by selling debt to "sterilise" capital inflows were particularly acute in Brazil last year. There was a rapid expansion of internal debt and a sharp rise in reserves. But because inflation and real interest rates were so high, the interest rates paid on the extra debt added critically to the overall fiscal deficit, which fed into the country's inflation problem.

COLOMBIA also had great difficulty: foreign exchange reserves rose in 1991 by \$1.5bn, equal to its entire monetary base. High real interest rates, which resulted from attempts to sterilise these inflows, meant that, according to the Inter-American Development Bank, in Colombia and some other countries there had been "no real benefit of the inflows of capital to the national economies in terms of increased investment or faster growth."

By common consent, Mexico has probably struck the best balance. Although it had the largest inflow, its fiscal surplus allowed internal debt to be paid back and interest rates to be lowered.

Without the fiscal surplus - which is difficult psychologically to justify in a developing country - interest rates in Mexico would have had to be higher and therefore economic growth slower.

The Mexican government has also used foreign currency



Chilean finance minister, Alejandro Foxley warns: "We already know from the previous crisis that a sudden inflow of capital can be extremely destructive."

reserves to buy back foreign debt, although this has the disadvantage again that it uses high-cost capital to buy back low-cost capital.

Significantly, a further possibly policy reaction has hardly been discussed in the region: direct obstacles to capital flows. It is clear that most governments recognise that this would send a strong signal suggesting a reversal of the recent financial liberalisation.

Furthermore, there must be substantial doubts about the efficacy of capital controls or foreign exchange controls either to keep funds in a country or to stop them from entering. Such controls would probably have little effect at a substantial cost.

There is no doubt that the inflows would probably have been more useful if they had been somewhat slower. As the Inter-American Development Bank said, late last year: "It would have been preferable if they had entered the countries more gradually and on a sustainable basis."

Indeed, forecasts suggest that inflows to the region will slow down in the current year. This will happen for a variety of reasons, but an important contributory factor will be the impact on the figures of Brazil. That country's continuing economic difficulties will feed continuing fears about another asset confiscation through some kind of shock plan, while the government's growth orientation may bring about a decline in real interest rates.

A rerun of the debt crisis?

THE sudden rush of capital into Latin America has inevitably raised questions about what happens if it stops. As the combined current account deficit of the region widens sharply, as it did last year, the parallels are already being drawn with the years that led up to the debt crisis of the 1980s.

There are significant differences, however, between what is happening now and the experience of the late 1970s and early 1980s which should reduce the risks.

● Then, budget deficits and inflation were on the rise, while now inflation is declining and budgets are balanced.

● Then, the borrowing was mostly done by the public sector and this time it has been private. This does not comfort everybody: the worrying exception last time was Chile, where the government was eventually forced to assume private foreign debt, mostly owed by Chilean banks. "Private debt in Latin America has a way of becoming public debt," notes one US economist.

● Then, the inflows were largely bank-financed and with interest rates floating along with US rates. This time the mix of inflows is significantly more varied - including equity, more borrowing at fixed interest rates, and an important component of direct investment. Equity investment does not create debt and dividends, in contrast to interest payments, are only paid in the event of investment success. Although in some countries debt servicing would still constitute a problem, if US interest rates rose sharply, the new capital flows do not increase the vulnerability of the region to US interest increases in the way that the debt inflows of the 1970s did.

● Then, the capital inflows represented a much larger percentage of regional domestic product than in the 1990s. In 1978-82, capital inflows into the region as a whole represented 7 per cent of domestic product. In 1990-91, about 4 per cent and last year 4.8 per cent. However, the averages deceive: Mexico's inflows represented last year over 8.4 per cent of gross domestic product.

There is another crucial difference. Unlike in 1978-82, official reserves have been rising as authorities have actively intervened in the foreign exchange market. Many governments thus have a substantial cushion of foreign exchange reserves in case of troubles ahead.

The current account deficit has been very much the counterpart to the capital inflows. Figures from the Economic Commission for Latin America and the Caribbean show a doubling of the region's current account deficit, excluding Brazil's large surplus, to \$39bn last year from \$18bn in 1991. This year from \$18bn in 1991. This year from \$18bn in 1991. This year from \$18bn in 1991.

Nonetheless, Mexico's current account deficit of around 6 per cent of its GDP in 1992 accounted for half of the region's combined current account deficit, excluding Brazil. Many forecasts suggest the deficit will now rise to \$27bn this year, 8 per cent of GDP.

EVEN though this is mainly the result of private sector activity, this does not mean it is of no concern to the government - "in practice, large private sector current account deficits can have important and, frequently, adverse implications for the public sector," says Mr Paul Luke of the British Investment Bank, Morgan Grenfell. According to the Organisation for Economic Co-operation and Development, which published a generally optimistic report on Mexico last year, "it could once again become difficult to finance a current account deficit, which as a percentage of GDP is close to GDP growth." Continued current account deficits at current levels implied rises in the ratio of foreign liabilities to GDP "in excess of anything observed historically."

More accurately, the question is not whether the deficit can be financed - because after the fact a country's current account deficit will always equal inflows of capital adjusted for changes in reserves. The question is at what level of interest rates and therefore of economic growth will the equilibrium between capital inflows and current account deficit be reached. The big current account deficits highlight another issue:

exports are not rising quick enough for some people's liking. "The model is one of export-led growth; the problem is that in most countries exports have yet to take off," says Victor Bulmer-Thomas, head of the Institute for Latin American Studies at the University of London.

This underlines that Latin America's return to growth has so far mostly arisen directly from the lifting of the constraint on access to foreign exchange. This first stage of growth arises because capital inflows allow an economy to spend more than it produces. The importance of this should not be underestimated, especially in a region emerging from a "lost decade" in terms of growth and development," says Stephen Griffith-Jones of Sussex University's Institute of Development Studies in a recent book. It is however a temporary phenomenon.

The second - more long-standing - beneficial effect on growth of capital inflows depends on the extent to which they finance growth in productive capacity. In the 1970s debt spurge, we now know that capital inflows generated insufficient new productive capacity to provide the future income that was necessary to finance the loans. Now the crucial second stage of growth depends on to what extent the inflows are directed to investment and how productive it is.

If enough efficient investment takes place and output rises sufficiently, it is more likely that future debt servicing will be financeable without problems. In Mexico, some capital inflows are financing new factories and machinery for foreign and domestic investors. But the Mexican statistics - with their broad definition of intermediate goods - do not really permit a judgement of the extent to which the flows are financing consumption or investment. Moreover, some inflows which might be unequivocally defined as investment are going into construction and real estate projects, which may only obliquely, if at all, help to provide foreign currency income streams to service the financings. Mexico, for example, has been borrowing in dollars to finance toll-road construction.

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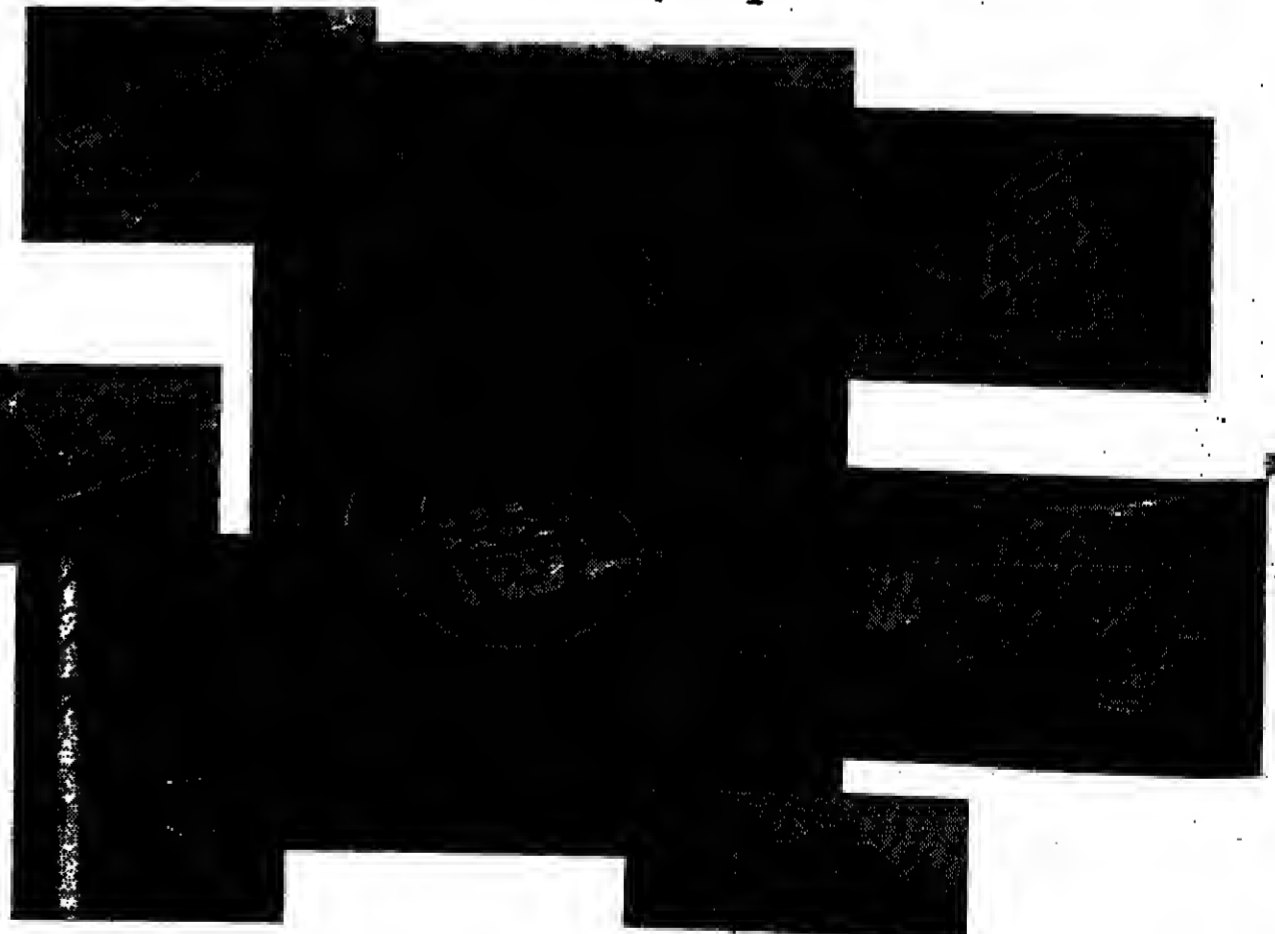
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A scale of desirability for capital flows

CAPITAL is flowing back into Latin America, but not all capital flows are created equal.

"Some types of flows seem more desirable than others," says Stephany Griffith-Jones, of Sussex University's Institute of Development Studies. Bottom of this scale of desirability, from the recipient economy point of view, is speculative short-term capital. Of this, perhaps the most risky inflows are those resulting from foreign currency borrowing by domestic companies to lodge money in money markets at home. At the top of the scale, it is generally agreed, is foreign direct investment aimed at enlarging productive capacity.

For comfort's sake, too high a proportion of the inflows into Latin America over the past few years is "hot money" - money attempting to capture profit from interest differentials or foreign exchange market inefficiencies, and which is likely to be withdrawn as soon as the perceived risk associated with the investment increases.

JP Morgan, the New York bank, estimated late last year that Treasury bills, local currency deposits and other short-term funding account for between one-third and one-half of Mexico's capital inflows.

Arbitrage borrowings by Latin American companies in dollars may also be storing up problems for the future: the British investment bank Morgan Grenfell estimates that 60 per cent of Argentine corporate debt is in US dollars; much of that is clearly invested in the Argentine money markets.

The reason why the dependence on short-term capital is such a critical issue for Mexico and Argentina hangs on their exchange rate policies. Both are using exchange rate policy as a tool in the battle against inflation, leading to an appreciation in the real value of their currencies against the dollar.

Argentina fixed its currency to the dollar in April 1991. Mexico, which until October was pursuing a daily slide of the peso amounting to a 2.5 per

cent nominal devaluation a year, is now allowing the currency to float within a target band that would permit a maximum depreciation of twice that.

The problem is that so much of the short-term inflows depend on an elusive commodity: confidence. If the view grows that a big devaluation is in the offing, then short-term capital will not hang around to wait and see. The impact on international financial market confidence could be such that no politically sustainable level of interest rates will be enough to tempt it back.

This possibility can be cushioned by the now significant reserves, and in the early part of this year short-term capital inflows appeared to be holding up relatively well - albeit, in Mexico, at the cost of higher interest rates. Nonetheless the risk remains of over-dependence on this type of capital. Indeed, a slowing down of inflows may occur because of events completely external to the region. Some short-term inflows have certainly been encouraged by recent mutually low US interest rates and the low returns on investments generally in the US and other industrialised countries.

In Mexico's case, much depends on the passage of the North American Free Trade Agreement through the legislatures of Mexico, Canada and the US. The biggest question here is the attitude of the US Congress to the accord - and signs, one way or the other, about the attitudes of US legislators - are already having a significant impact on capital flows. Sensitive to these concerns are domestic residents bringing home flight capital, salted away in the 1970s and 1980s. This group, until a couple of years ago, accounted for, according to some estimates, half of the region's private capital inflows.

The Inter-American Development Bank has estimated that more recently almost a quarter of the funds flowing into Mexico have been controlled by Mexican investors.

The trigger for the return of much of this money was the simple lifting of capital controls across the region, which gave residents comfort that they could take their money out of the country. Some flight capital is also obviously linked with drugs trafficking, although this is more important in some countries than in



Illegal drugs seized for burning by Colombian troops

others. Drugs money responds to the concerns of all investors - for example, low returns in established markets - as well as to special concerns such as the clampdown on money-laundering in the US and other banking centres following the BCCI scandal.

All told, however, the influence of returning flight capital on overall flows has probably fallen in the past two years as more foreigners have begun to invest. Latin Americans are not, of course, simply parking money on deposit in banks or short-term government paper. They have also repatriated capital as portfolio investors in the region's stock markets and as important buyers of Eurobonds from Latin American issuers.

Portfolio flows One step up the ladder

PORTFOLIO flows investment in stocks and bonds - are widely considered to be one step up the ladder of desirability.

Much of this investment goes into the stock market and into bidding up the price of existing assets, but there is an element of new investment, to the extent that these higher market levels allow for new issues of equity and debt.

All developing countries have seen a dramatic increase in portfolio investment flows, which tripled to \$21bn in 1991 over the level of 1989, and were projected at around \$27bn for 1992. Total volume of portfolio flows now exceeds net flows of official finance to developing countries, reflecting what is clearly the growing dominance of the private sector in international finance. According to the World Bank, portfolio flows to Latin America multiplied fourfold from 1990 to 1992.

Portfolio investors are not a homogeneous bunch - and neither can all portfolio investment be viewed as equal. Apart from rich Latin Americans, the universe of portfolio investors also includes aggressive speculative investors such as the

so-called hedge funds, which helped to cause havoc in the European Monetary System last year, and conservative investment institutions dipping a toe into more exotic markets in an attempt to improve returns.

Some of this investment is therefore quite transitory: some more permanent. The fact that sometimes relatively modest outflows from a stock market can precipitate steep price declines may limit the mobility of this capital. This is because some investors are unwilling to take large losses and prefer to hold on to await a future price rally.

Some traders in the bond and equity markets argue that, over time, the profile of the portfolio investors in Latin America has changed.

The first wave of buying was by investors who believed the price of assets in the region had simply fallen too far; this was speculative capital centred on trading desks, and to some extent hedge funds and wealthy individuals. It was encouraged by the settlement in Mexico of a debt reduction agreement which, along with low US interest rates, has taken the debt question off the list of prime investor concerns.

Since then, into the bond market have moved buyers attracted by high absolute yields - preferably in double digits - seeking an improvement in credit. This group are important buyers of Eurobonds. Many do not look very carefully at bond prospectuses

- and they include individuals and mutual funds focusing on emerging markets.

This group of investors - looking only at absolute yields and not worried about the more subtle aspects of credit quality - had a role in temporarily and unsustainably compressing yield spreads towards the middle of last year, between borrowers of very different calibre.

THE other culprit was over-aggressive bidding by bond underwriters for bond mandates: this left huge amounts of Latin American paper on the books of underwriters late last year, and effectively closed the new-issue market for several months.

The backlog was only cleared this year by the rally in US interest rates, which lifted the prices of all dollar-denominated bonds. With US interest rates at current levels, it is unlikely that underwriters will be able to rely on interest rate falls to bail them out a second time.

Nonetheless, some bond market traders say Latin bonds are moving into another stage of evolution: sophisticated but often conservative institutional investors are said to be moving in. If indeed this is happening - and it should be facilitated by changes in the last couple of years in US securities regulation, which have helped to reduce some of the more onerous disclosure and prospectus requirements for issuers selling securities to institutional

investors - then the market in Latin American bonds will be moving towards a more important maturity.

These institutions are careful asset allocators, which use modern portfolio theory, buying bonds and equities essentially to diversify risk. They are interested in good credit quality and liquidity, and focus on the spreads or margins over US Treasury bill rates. They will seek diversification benefits: examining, for example, correlations between, say, US and Mexican government bonds.

The justification for portfolio diversification by investment institutions is stronger in the case of equities than it is for bonds. Dollar bonds, issued by whomsoever, tend to track the US bonds market; while, for non-dollar bonds, the perceived exchange rate risk against the dollar is to some extent built into the yield differentials between that market and the dollar bond market.

For equity investors, this is not the case, and there has been a gradually expanding interest in the region's stock markets from institutions. For the most part, Latin American stock markets are followed by the emerging-markets group within investment institutions, which controls a small but generally growing percentage of the overall portfolio.

In the UK, there has perhaps been a longer tradition of investment than in the US in what we now call emerging markets. But the traditional

emerging markets for UK investors have been in the countries of the Commonwealth, and only recently has interest arisen in Latin America. Far more important for US institutions, some of which already treat certain Mexican stocks as part of their North American, rather than their emerging markets, portfolio.

The potential supply of capital flows from this source to the region is immense, even if only a tiny percentage of the institutions' portfolios are devoted to the region. In the US alone, institutional investors hold more than \$6,000bn of investable funds. Indeed, if these investors decide to follow their portfolio theory, the optimal level of Latin American investment in a portfolio is considerably above their actual levels, leaving much scope for growth.

There are many ways in which countries can improve the friendliness of their markets to such investors: improving and enforcing regulation, improving the quality of corporate disclosure, improving market liquidity and the like.

Governments can issue bonds in the international markets across the maturity spectrum to provide benchmarks for other issuers from that country, a tactic followed by Mexico.

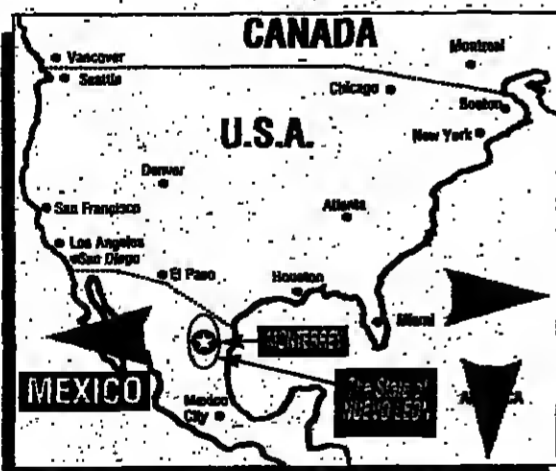
They can also act to reduce the likelihood of disorderly borrowing abroad - of which

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LATIN AMERICAN FINANCE 4

Portfolio flows

Continued from previous page: there were several examples in 1992. Although it may go against the grain of liberalisation of financial markets, some bankers and academics believe governments should impose a queuing system on fund raisings in the international bond and equity markets, such as that operated until recently by the Bank of England.

This is because a mispriced or badly-timed issue by one fundraiser - there were several examples of these last year - can all too easily affect market psychology and prevent others from having access to the markets. It is also argued that some kind of quality control is worth considering on would-be issuers. This is important in the international bond market, where no Latin bond issue has defaulted in recent years - a record which, sooner or later, probably will fall, with potentially disruptive effects for other borrowers.

In the shorter term, there is concern about the relatively poor performance and volatility of both Latin bond and stock markets in 1992. Salomon Brothers' index of Brady bonds showed a total return of 4.8 per cent for 1992. Stock market investors also had a much more difficult year in 1992 than they did in 1991. Double-digit gains were observed only in Peru, Mexico and Colombia, and in both Mexican and Peruvian markets there was extraordinary volatility. This was after a year in which there were gains above 100 per cent

in Argentina, Brazil, Colombia, Mexico and Peru. Chile rose by 90 per cent, while Venezuela was a "disappointing" 34 per cent.

Although not usually classed as portfolio capital, there is another potential source of private capital that has been largely forgotten in recent years: the commercial banks.

If international banks are to become a more important source of finance for the region during the 1990s, the growth will be gradual. Not only will the experience of the 1970s make them cautious for some time to come, but, more important, it will also take time for banking regulators throughout the world to reduce the mandated provisions that banks have to make against loans to developing countries.

There is, however, scope for project investment - particularly where loans can be repaid through receivables arising from cross-border commerce - and support for companies planning direct investment: at the moment, most favoured source of foreign capital.

Foreign direct investment

Impact is significant

WHILE portfolio flows to all developing countries stagnated somewhat last year, the importance of foreign direct investment continued to grow.

According to the Organisation for Economic Co-operation

and Development, international direct investment accounted for less than 20 per cent of total private capital flows to developing countries at the beginning of the 1980s. By 1987-89, this had risen to 60 per cent, in part because bank lending had dried up.

In Latin America, FDI is already having a significant impact on the region's balance of payments. While in 1988 it was equal to less than a third of the region's net transfers abroad on debt, estimates for 1992 show FDI almost equal to net transfers. Direct investment accounted for 65 per cent of Chile's capital inflows in 1991, and 35 per cent of Mexico's.

There is no doubt that contributory factors behind this increasing inflow have stemmed from within the region: the improved macro-economic performance, more welcoming regulatory regimes, the decline in Latin America's economic nationalism and its privatisation programmes.

The development has also come against the background of an extraordinary boom in cross-border investment that continued throughout the 1980s, but which appears to have slowed down in the early 1990s as, one by one, the main industrial economies have sunk into recession.

In the 1980s, according to the OECD, the total stock of FDI boomed globally from about \$500bn in 1980 to \$1,500bn today. Worldwide flow of FDI grew in the 1980s at an unprecedented average rate of about 29 per cent, reaching close to \$200bn in 1990.

This growth rate was five times that of world exports and

10 times world output.

Such rapid growth meant that the percentage of FDI going to developing countries fell markedly in the 1980s, even as in absolute terms the amount rose.

The proportion going to developing countries declined from 20 per cent in 1980-84 to just over 10 per cent in 1985-89; Latin America's share of the total dropped from 7.4 to 3 per cent of global inflows and that of Africa from 2.5 to 0.6 per cent.

In the years 1985-90, when overall cross-border direct investment in industrialised countries was growing at around 30 per cent a year, FDI into Latin America was expanding at a more modest rate of 11 per cent.

ACCORDING to the figures, global FDI peaked in 1988 and fell in 1990 - a development in part related to the end of the debt-financed cross-border mergers and acquisitions boom in industrialised economies in the late 1980s. The OECD figures unfortunately stop in 1990 and therefore it is difficult to be more exact about developments since then.

However, there can be little doubt that overall cross-border FDI fell sharply in 1991 and 1992. Meanwhile, figures from the World Bank suggest continuing growth in FDI to all developing countries and into Latin America in 1991 and 1992. Indeed, 1989 appears to have marked a low point for the relative share that Latin America took in total FDI and in FDI to developing countries.

Thus it seems that the growth of foreign direct investment

in the region is more than a function of the FDI boom of the 1980s. In some senses, this continued growth in developing countries may in part be a reaction to that boom: most acquisitions within the industrialised world during the 1980s are already considered to have been overpriced failures.

In part, aggressive privatisation - which can happen only once - has swollen the figures. Balancing this though, debt-for-equity swap programmes with subsidies for non-privatisation investments have been largely abandoned or have become irrelevant (as the secondary market prices of its debt rose close to face value) in the case of Chile.

According to Ms DeAnne Julius, chief economist of the Royal Dutch/Shell Group Latin America, the increased FDI flows to developing countries may be more than a short-term phenomenon. She calculates that FDI to developing countries could grow from \$300bn in 1990 to \$800bn (in 1990 dollars) in 2000, representing 30 per cent of world flows against 17 per cent in 1990. Latin America, she notes, overtook east Asia as an FDI destination in 1990.

The continued rise of FDI into Latin America is important too because it demonstrates that Latin America may have less to fear from eastern Europe than most of its governments thought perhaps two or three years ago.

Voices of dissent

ECONOMISTS, however, do not make foreign investment decisions. Producers do. And some producers are sceptical that the course now adopted in the region - the economic strategy praised so widely - will necessarily yield the expected investment.

The Latin American head of one multinational holds a view of economic policies in Brazil and Argentina - two countries in which it has had long-standing operations - which is diametrically opposed to the conventional economic wisdom.

He sees policy in Argentina, where his company is losing money, as disastrously damaging the country's economic structure: low tariffs and a high exchange rate have made imports cheap and forced him to cut prices. Meanwhile, because domestic inflation is slow to come down, his domestic costs structure is rising and his company is caught in a vice.

He describes Argentina as a wonderful place to export products to, but as an awful place in which to establish a factory. On the other hand, he is enthusiastic about Brazil, where his company is making significant profits but which economists view almost as an economic disaster zone.

Another large multinational, this time from the US, is cited as planning to invest heavily in Latin America - in one country: Brazil. This is because Brazil is the highest home market and can be used as a base for the rest of Latin America. If the factories were to be established outside Brazil, the company believes it would find it almost impossible to sell into the largest domestic market.

Economists would argue that, while it is not unusual for producers to seek to extract benefits from import substitution, the policies that producers tend to favour tend to prop up inefficient industry. These policies have harmed Latin America in the past.

Furthermore, the whole point of opening the economy is to create more efficient industries where the country has a comparative advantage, and to close down uncompetitive plants. Thus, under the North American Free Trade Agreement between Canada,

the US and Mexico, capital-intensive production could be expected to concentrate in the US, and labour-intensive production in Mexico, where it is cheaper.

Influences on foreign direct investors

THE EXTENT of future development of regional free trade areas will have a significant impact on longer-term direct investment trends. Ratification of Nafta - due this year to go before the legislatures of the three countries - would provide an important pointer.

The huge direct investment into Europe in the 1980s ahead of the creation of the single market strongly suggests that companies are driven to invest not only by fears of future trade barriers but also by expectations of improved growth opportunities.

According to the International Finance Corporation, the private sector arm of the World Bank, market size is one of the most important considerations in making investment location decisions, while prospects for market growth are also particularly important. Larger "home" markets mean bigger local sales, which are usually more profitable than exports. Larger markets offer more diverse resources to make local sourcing more feasible.

According to the IFC, relative costs continue to play an important role in influencing decisions on the location of foreign direct investment. But some factors are now less important, in part because direct labour costs in many industries now account for



Vehicle assembly work in Mexico. Component supply links between companies are important factors in attracting foreign investment

only 10-15 per cent of manufacturing costs.

To encourage direct investment, many Latin American governments may be tempted to offer subsidies. A more sensible response would be further reforms, for example of the labour market. Social security and other systems act in many countries as a payroll tax and sharply raise the costs of employing labour while often providing marginal benefits to employees.

With the rising cost of white-collar workers, there is an important attraction if countries offer a pool of well-educated labour. Many Latin American economies are well-equipped to offer such labour, although there is often insufficient skilled labour. There is thus a gap between the highly educated and the unskilled workers, which can be filled only by improvements in education systems that have deteriorated over the last decade.

A country's legal system is also critically important. For foreign investors - as well as for ordinary citizens - the

legal systems of the region leave much to be desired. Investors are conscious that while Latin America's judicial processes may be more developed than those of east Europe, they are still often arbitrary and prone to corruption. The dictum of the Mexican president Benito Juarez still often applies: "To my enemies the law; to my friends everything."

Perceived country risk also continues to be important to investors, but it is obviously less so in some industries where, for example, returns are high or where operations can be terminated rapidly without undue cost, such as garment assembly. The advertised fast payback period is presumably why some investors are willing to consider tourist developments in Cuba, where the risk of political upheaval is hardly remote.

Potential investors also look at the level of existing foreign investment for assurance and at the possibility of synergies developing as foreign firms become one another's suppliers.

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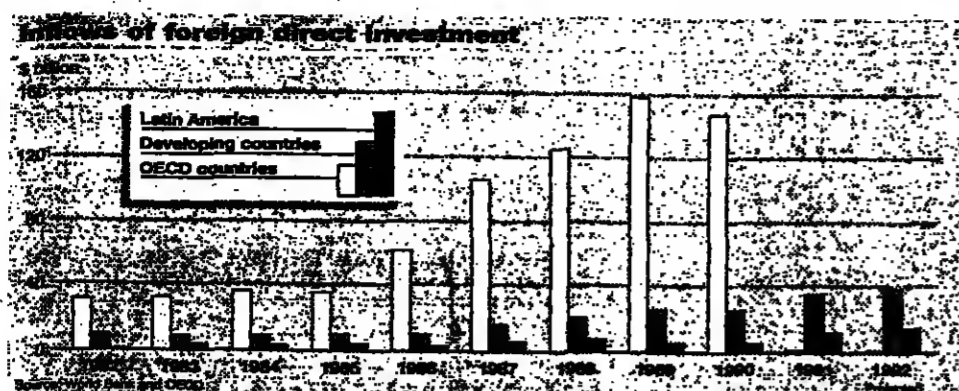
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هنگام انتشار



Continued from facing page:

ers. Such a development is already in evidence in the Mexican car industry.

The quality of infrastructure is an important determinant of the attraction of foreign direct investment. This underlines again - as in education - the importance of an appropriate public investment policy as an essential element in the encouragement of private investment.

FDI prospects depend also on what is happening in a company's traditional markets. Just as portfolio investors started looking at emerging markets when returns at home dropped, so corporate investors have stretched out to developing countries in an attempt to raise their returns on capital.

Some companies facing mature markets at home where they have to battle expensively with competitors for fractions of a percentage point in market share are increasingly looking for a foothold in fast-growing developing country markets. One illustration of this mature market phenomenon suggests it costs 10 times more to attract one new visitor to Disneyland than it did a decade or so ago.

Typical of these companies are those in what are now called fast-moving consumer goods. One such company is Nestlé, which first entered Latin America in 1876, selling to Brazil. It established its first sales office in Rio de Janeiro in 1914, with a factory in 1921. Today it has 70 plants and 30,000 people in Latin America, providing 11 per cent of Nestlé's turnover. The region's share of the volume of production is higher than that, however, because controls have kept prices down.

Partly because of the general lifting of price controls, Nestlé is positive about the region.

After a "lost decade", the company's sales in Argentina have tripled in a year. It expects profit margins to recover faster than sales, but investments will also be higher. Its plans call for \$200 million of investment in the region during the 1990s.

Unilever, the Anglo-Dutch household goods group, is looking favourably at Latin America and the Pacific and their sometimes "phenomenal" growth rates, contrasting them with the position in the US and Japan where the challenge is "the laborious winning of market share". In many developing countries, a small rise in GDP is enough to bring many new people into markets.

Pepsico said this month that it would invest about \$750m over the next five years on its bottling operations, extending its distribution network and marketing its products more aggressively in Mexico.

COLGATE-PALMOLIVE is another company that has seen steady growth in its Latin American operations since 1985. Now the company is considering acquisitions in several countries, some of which would be sizeable. It is interested in extending joint ventures, such as that with Colson in Mexico to manufacture bleach. It invested \$50m in the region last year, in 1993 the figure could be significantly higher.

If they want to expand in Latin America, companies such as Colgate-Palmolive are likely to establish production facilities there rather than export the reason is that the low value-to-weight ratio of its products makes it expensive to transport them. There are other areas where the region appears attractive to foreign investors, as the interest in the privatisation of Argentine utilities - including British Gas's investment in the

Buenos Aires gas distribution company - shows.

Service industries - hotels and financial services, for example - have also attracted foreign investment. Services have grown considerably in importance in worldwide FDI: they represented a quarter of FDI stock at the end of the 1970s, but by the end of the 1980s, they represented half of the FDI stock and 55-60 per cent of all new flows.

Yet, from the Latin American perspective, both service industries and utilities are areas where competition from foreign tradeable goods is limited - because there is no significant competition with imports. Moreover, privatisation encourages capital inflows, but it is a one-off phenomenon.

There is thus a need to look at the attraction of FDI in Latin America industry by industry. Chocolate, toothpaste, water, hotels and banking are important sectors, but it is still hard to see how direct investment in these areas is going to yield increased exports. And on this, the success of the model in large part depends.

But there is one area where foreign direct investors regularly mention Latin America's comparative advantage: its wealth of natural resources. From the FDI perspective, the freedom that the Chilean government has given to foreign investors in exploiting its natural resources has been an important element of Chile's success in attracting investment. Yet many countries - including the region's two largest economies, Mexico and Brazil - have laws which substantially forbid foreign investment in the mining and oil sectors.

Foreign raw material exploitation will not provide the answer to the region's problems of development. But

allowing it could well increase capital flows to the region during a potentially difficult transitional period when much domestic industrial capacity that depended on import substitution for survival is closed down.

In fact, the main benefit of FDI over time will lie more in the transfer of technology than in medium-term balance of payments financing. It fosters industrial development and the creation of human capital, and provides access to scarce technology, marketing links and management know-how.

Over a period of time, successful FDI entails a stream of service payments which will reduce the transfers of resources. US Commerce Department statistics show that in 1991 income from US direct investment in Mexico was \$2.3bn, which exceeded new direct investment from the US in that year.

From 1985 to 1986, net transfers on FDI (that is new investment minus remitted profits) to all developing countries were either negative or only marginally positive. The current popularity of FDI in the region may therefore wane as remittances start adversely to affect the balance of payments.

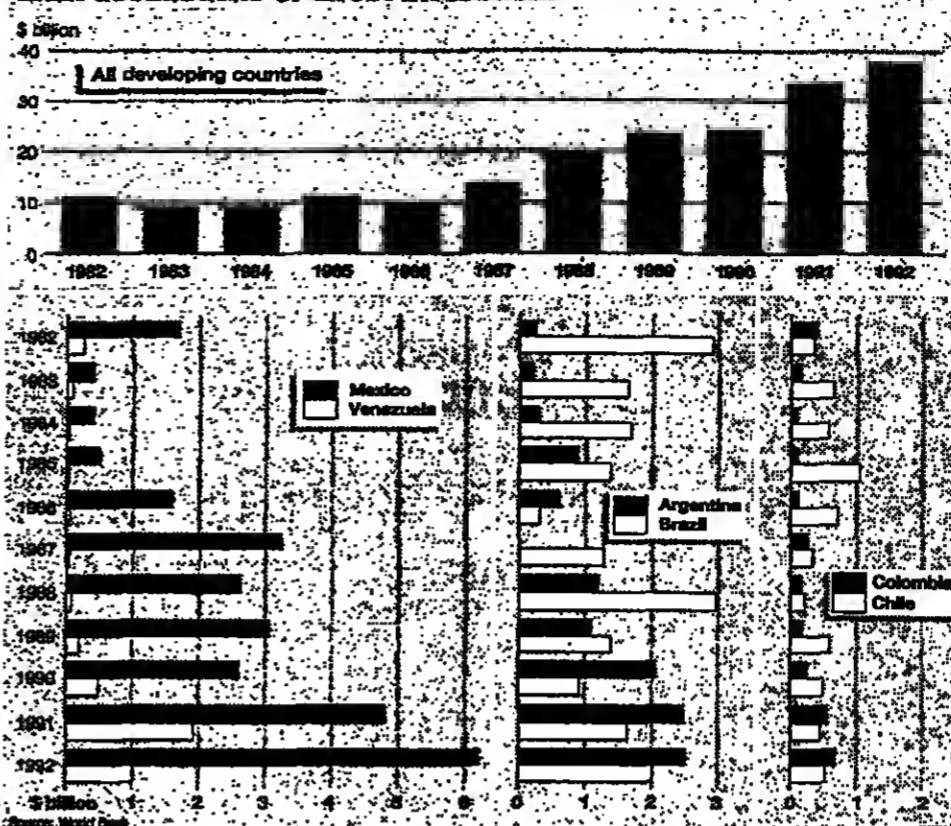
In conclusion...

A positive but highly uncertain outlook

LATIN AMERICA'S new capital inflows have undoubtedly to be seen in part in the context of important changes in capital movements at a global level - the growing integration of capital markets across borders, institutions and financial market sectors. Traditional markets have matured. Businesses have become international in perspective, looking beyond their national borders for new products, customers and inputs. Improved transport and communications have facilitated this as has technological change and innovation.

Such changes suggest that provided an open world trading system remains in place, long-term external structural reasons exist for continued

Main destinations of direct investment



flows of capital to Latin America.

Much still depends on a continuation of the developments in the region in the last five years: in particular, the better economic management and greater political stability. This will in turn hang on the results of the coming round of presidential elections in Latin America.

In some countries, these elections will be taking place in a transitional period: the initial glow from renewed capital inflows will have worn off, the shrinking of industry brought

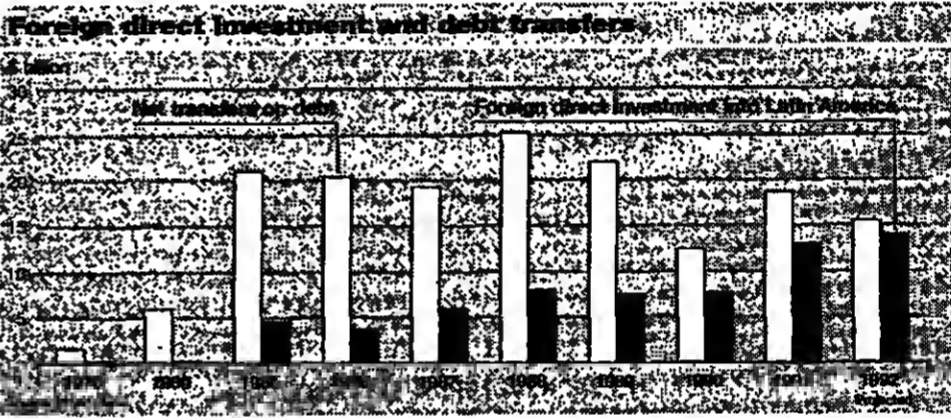
about by economic and trade reform will start to bite and the longer-term benefits of investment will have yet to become apparent.

Indeed, economic forecasts suggest slower growth for 1993. Widening trade deficits seem set to act as a drag on economies, as will interest rates set higher either to support a weak currency or to tackle high wage demands.

There will thus be the temptation to abandon the fight against inflation in a bid to restart growth. The World Bank points out that in a

global marketplace there is a sharply-reduced tolerance for poor policies; yet this does not mean that governments will not try them.

In part, longer-term prospects will be determined by how investors fare in Latin America in these transitional years. They also depend on investor behaviour in a US economic recovery and as US interest rates start to rise. According to the International Monetary Fund, in a study published this month: "Swings in private capital outflows from the United States play a



Economic forecasts suggest slower growth this year

key role as external impulses that affect the size of capital inflows into Latin America." Furthermore, despite the Brady settlements, some governments remain vulnerable to interest rate increases on their foreign debt.

Foreign capital has been likened to an umbrella that opens in the sunshine and closes in the storm: it flows abundantly only when least needed. This underlines the importance of efforts under way to enhance domestic savings to reduce the reliance on foreign capital. For example, the pension fund reforms proposed in Argentina might add 2-3 percentage points to the domestic savings rate. However, increasing domestic savings is not something that can be achieved overnight and dependence on external savings seems likely to continue in most countries for some time. And even though there are many reasons why substantial capital inflows should continue through the 1990s, that is not to say that these will occur. There may well be significant year-to-year volatility in capital flows, and therein lies the rub.

If there is confidence in economic policy, then inflows may well be sustained. But if for whatever reason - perhaps something external to the economy - inflows slow dramatically, then confidence in economic policy could ebb, inducing further capital outflows. The chances of a collapse in confidence are greater when the exchange rate is seen as overvalued, a risk now being run both in Mexico and Argentina.

Latin American governments can play their part in reducing volatility by making sure their economic policy "fundamentals" are strong. But they are not masters of their own destinies, by any means.

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<p>July 1992</p> <p>\$300,000,000</p> <p>Fomento Económico Mexicano, S.A. de C.V.</p> <p>Euro-Notes</p> <p>Co-Manager</p>	<p>July 1992</p> <p>\$100,000,000</p> <p>Nacional Financiera, S.N.C.</p> <p>Eurobonds</p> <p>Co-Manager</p>	<p>July 1992</p> <p>\$75,000,000</p> <p>Tubos de Acero de México, S.A.</p> <p>Euro Commercial Paper Program</p> <p>Dealer</p>	<p>June 1992</p> <p>\$132,500,000</p> <p>Anacruz Celulose, S.A.</p> <p>U.S. ADR offering, Syndicate Member</p>	<p>June 1992</p> <p>\$108,750,000</p> <p>Emerging Markets Telecommunications Fund, Ltd.</p> <p>Registered Fund</p> <p>Selected Dealer</p>	<p>June 1992</p> <p>\$100,000,000</p> <p>Aerovías de México, S.A. de C.V.</p> <p>Euro-Notes</p> <p>Co-Manager</p>	<p>June 1992</p> <p>\$45,000,000</p> <p>Grupo Embotellador de México, S.A. de C.V.</p> <p>Euro-Notes</p> <p>Sole Manager</p>	<p>June 1992</p> <p>FF 500,000,000</p> <p>Petróleos Mexicanos</p> <p>Euro-Notes</p> <p>Co-Manager</p>
<p>May 1992</p> <p>\$757,687,500</p> <p>Teléfonos de México, S.A. de C.V.</p> <p>Mexican equity offering, Co-Lead Manager</p> <p>U.S. ADR offering, Syndicate Member</p>	<p>May 1992</p> <p>\$200,000,000</p> <p>Banco do Brasil, S.A.</p> <p>Eurobonds</p> <p>Co-Manager</p>	<p>May 1992</p> <p>\$100,000,000</p> <p>União de Bancos Brasileiros, S.A.</p> <p>Euro-Notes</p> <p>Co-Manager</p>	<p>May 1992</p> <p>\$31,000,000</p> <p>The Mexico Dollar Income Fund, Ltd.</p> <p>Common Shares</p> <p>Investment Advisor, Placement Agent</p>	<p>April 1992</p> <p>\$488,750,000</p> <p>Empresas ICA Sociedad Controladora, S.A. de C.V.</p> <p>Mexican equity offering, Co-Lead Manager</p> <p>U.S. ADR offering, Syndicate Member</p>	<p>April 1992</p> <p>\$100,000,000</p> <p>União de Bancos Brasileiros, S.A.</p> <p>Euro-Notes</p> <p>Co-Manager</p>	<p>April 1992</p> <p>\$69,000,000</p> <p>The Brazil Equity Fund</p> <p>Common Shares</p> <p>Co-Manager</p>	<p>April 1992</p> <p>Ps 50,000,000,000</p> <p>Grupo Martí, S.A. de C.V.</p> <p>Common Shares</p> <p>Lead Manager</p>
<p>March 1992</p> <p>\$150,000,000</p> <p>Petróleos Mexicanos</p> <p>Euro-Notes</p> <p>Co-Manager</p>	<p>March 1992</p> <p>\$100,000,000</p> <p>Citibank, N.A. acting through its Brazil Branch</p> <p>Euro-Notes</p> <p>Co-Manager</p>	<p>March 1992</p> <p>\$20,000,000</p> <p>Tubos de Acero de México, S.A. de C.V.</p> <p>Euro-Notes</p> <p>Sole Dealer</p>	<p>March 1992</p> <p>Ps 179,360,000,000</p> <p>Grupo Cementos de Chiniquihua, S.A. de C.V.</p> <p>Mexican equity offering, Lead Manager</p> <p>U.S. offering, International Placement Agent</p>	<p>January 1992</p> <p>\$300,000,000</p> <p>Petróleo Brasileiro S.A.</p> <p>Euro-Notes</p> <p>Co-Manager</p>	<p>January 1992</p> <p>\$50,000,000</p> <p>Banco Bradesco S.A.</p> <p>Euro-Notes</p> <p>Co-Manager</p>		

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LATIN AMERICAN FINANCE 6

Tracy Corrigan looks at the markets in Latin debt

Lines are blurring

THE NATURE of the Latin American debt market is changing rapidly, as an increasingly broad range of investors enters the market.

As this process advances, there has been a blurring of the strict delineation between Latin American country loans traded in the secondary market and new issues launched in the Eurobond market by both sovereign and corporate Latin American borrowers.

In the wake of the debt crisis, when many Latin American countries defaulted on their bank loans, the secondary market in their debt grew up as a result of trading by banks, largely creditor banks trying to lay off or manage their risk.

When Latin American sovereign and corporate borrowers returned to the Eurobond market a few years ago, these high-yielding bonds were initially bought largely by retail investors in Europe or by Latin American nationals (in the form of so-called flight capital).

But the region's recent record of strong growth and economic reforms has attracted new investors and a growing number of specialist funds. In fact, the market in secondary bank loans has now been virtually replaced by a market in Brady bonds, the restructured bank debt created under the Brady debt reduction plan.

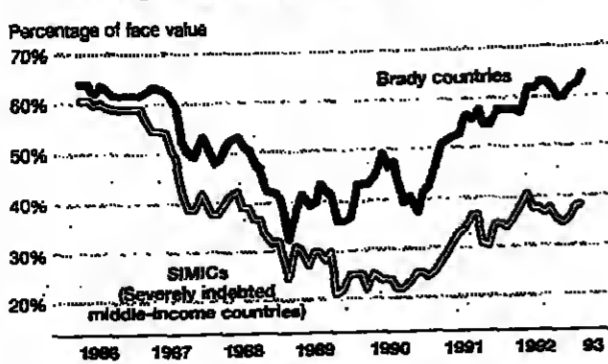
Venezuela and Mexico have already implemented their Brady plans, and Argentina is poised to issue its Brady bonds.

Meanwhile, trading in Brazilian debt has stopped, ahead of the implementation of the Brady package there, which was agreed with Brazil's bank advisory committee last July, but has been disappointingly slow to come to fruition.

The conclusion of the package has been delayed by the need to get an International Monetary Fund agreement in place prior to the Brady plan. The IMF agreement in turn requires a new package of measures by the government which have, in turn, been delayed by political problems.

Meanwhile, trading in Brazilian bank debt has come to a standstill, because banks have already tendered for bonds under the Brady plan. Instead, trading is concentrated in IOU bonds (issued last year in lieu of interest payments) and in when-and-if-issued (WIFI) Brady bonds. Among other

Secondary market prices



Source: World Bank

Brady bonds, Mexican par bonds have performed well, holding their spread relative to the US Treasury market until recently, despite the strong US market rally. However, the market in Venezuelan par and conversion bonds has been much more difficult, as a result, the fiscal deficit and current account deficits are mounting, says Mr Paul Luke, head of developing country research at Morgan Grenfell.

The price of the par bonds slumped a point to 56% in a week, despite the strong rally in the US market.

Meanwhile, the spread of investors in Latin American Eurobonds continues to increase, with even mainstream institutional investors beginning to dip their toes into the market, by buying Latin American securities as a small part of large and diversified portfolios.

AN appetite for extra yield, at a time when low interest rates are squeezing returns, has encouraged more investors to look at Latin American bonds. Although the market has been volatile, there has been, overall, a steady tightening of yield spreads relative to the US Treasury market in recent years, as the creditworthiness of Latin American borrowers has improved.

But the market suffered a setback at the end of last year, when oversupply caused yield margins to widen substantially. However, those wider margins, reviewed at the start of the year, started to attract investors back to the market.

As well as the broader range of investors, smaller Latin American countries are now returning to the market. Also, the market is now open to

Richard Lapper shows how pension funds can help promote local capital markets

Tough testing ground for reform

THE IMMINENT prospect of a far-reaching reform of Argentine pensions law is making life easier for Mr James Riley and Mr John Williams, who both work with UK-based merchant bank, Kleinwort Benson.

The two men have spent the last six months advising the Argentine government on the privatisation of the state-owned bank and insurance company, the Caja Nacional de Ahorro y Seguro.

The pension fund reform will lead to the rapid development of the private pensions and life insurance market, boosting both local and overseas interest in the Caja, which will expect to have a sizeable slice of the action.

That should improve the price the Argentine government should get for the sale, estimated by Mr Williams at between \$200m and \$300m - and provide a useful boost to the Latin American activities of Kleinwort and Coopers and Lybrand, the accountancy and management firm that is also involved.

"One of the key selling points of the Caja is its ability to take advantage of the reform. It should help all round," says Mr Williams, who expects the privatisation to go ahead in the Spring.

But much broader interests hinge on the successful approval and implementation of a private funded pensions system in Argentina. At a time when virtually every Latin American government is considering the replacement of increasingly unwieldy "save-as-you-go" pensions schemes - in which pensions are paid out of current taxation and social security revenues - success in Argentina would be a huge filip for the continent's pensions embryonic industry.

Local and foreign investors have been encouraged by the progress in Chile, where the pension system was privatised in 1981.

The more complex economic, social and political context offered by Argentina is likely to be a tougher testing ground for the idea that the development of private pension funds can contribute towards the successful modernisation and liberalisation of the continent's economies.

The success of Chile's pension fund reform has been a bogey influential among the continent's politicians and

businessmen. Chile replaced its pay-as-you-go system in 1981, with a law that obliged workers to contribute 10 per cent of their wages to private funds.

Already over a dozen pension fund administration companies or *administradores de fondos de pensiones (AFPs)* have built up \$12.5bn in funds.

These developments have

Much hinges on the approval of a privately funded pensions system in Argentina

been among a number designed to strengthen the local private sector.

The Santiago stock market, boosted by new issues stemming from an ambitious privatisation programme, has been given stability by the AFPs, who can invest up to 30 per cent of their assets in stocks, and have begun to function as institutional investors, owning about 10 per cent of the market's \$30bn capitalisation.

The AFPs are also at the centre of the development of the only long-term debt market in Latin America. In 1989, Chile developed strong enough credit ratings to be able to sell bonds

to the AFPs. Since then they have sold more than \$6bn in bonds with maturities up to 27 years.

Last year Chile's AFPs enjoyed a 48 per cent return on their assets, tempting three European groups Banco Santander of Spain, Union des Assurances de Paris and Les Mutuelles du Mans Assurance of France to invest in the sector alongside US groups such as Bankers Trust, Aetna and American Insurance Group.

Talk of the Chilean experience dominated a recent conference on pension fund reform in San Diego, California. Mr Rudolf van der Bijl, an official with the International Finance Corporation, a World Bank subsidiary which promotes private sector development, told the conference: "The demand for marketable securities generated by the accumulation of long-term savings in the hands of funded pension plans can provide a strong boost to emerging markets."

Mexico, Peru and Argentina are presently drafting legislation to replace or complement their state systems with private retirement schemes other countries may soon follow suit.

Mexico has set up a new system that will co-exist with its

existing social security system. The Argentine system will differ in some respects - banks and insurance companies will be allowed to own pension fund companies for example - and the government-owned Banco de la Nación will compete with privately owned pension fund managers with its own facility.

The success of Chile's pension fund reform has strongly influenced the continent's politicians

But, in other respects, Argentina's model mirrors developments on the other side of the Andes. Argentine workers are likely to be forced to contribute 11 per cent of their salaries to pension funds of their choice. The stakes are high. If successful, Argentine pension fund managers could be managing \$3.5bn within a year and up to \$40bn within a decade, providing a valuable source of capital for the local stock market.

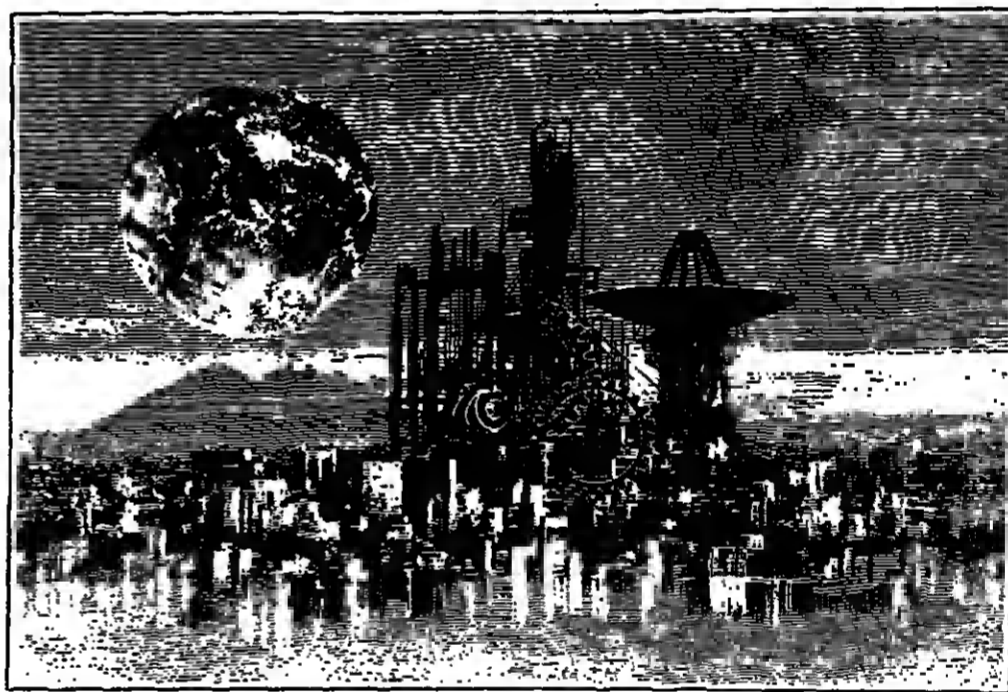
However, the transition could well be painful, partially because Argentina's social security is both more developed and under much more

strain than those of its neighbours. The number of pensioners has roughly doubled compared to the number of workers making contributions. Employers contributions have been increased in response to 40 per cent of payroll is paid in social security taxes.

Even so, heavy arrears amounting to some \$10bn have been accumulated and benefits have declined in real terms, leaving thousands of pensioners on incomes well below the official poverty level. Local newspapers have reported public suicides by distressed pensioners.

Advisers believe that the establishment of a fully funded scheme is the only way the problem can be tackled - "it is an absolutely crucial step to make," says Mr Riley. But the transition period will not be easy: he expects the move towards a new system will worsen problems in the short term, as new contributions are funnelled into investment funds rather than towards existing pensioners.

"In Chile, the system was introduced by an autocratic regime. The trick is to see whether it can be done in a democracy. It will be a real test in Argentina."



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